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*Russian CIS Cooperation Minister Serov on Integration Process

954E1292A Moscow ROSSIYSKAYA GAZETA (EKONOMICHESKIY SOYUZ SUPPLEMENT) in Russian 18 Aug 95 pp 9,11

[Interview with RF Minister on Cooperation with CIS-Participant States Valeriy Serov, conducted by ROSSIYSKAYA GAZETA correspondents Boris Filippov and Mikhail Shchipanov: "Our Strategy—Integration"]

[FBIS Translated Text]

[Correspondent] What place does your ministry occupy in the system of organs which determine Russia's formulated policy in regard to the near abroad?

[Serov] The RF [Russian Federation] Ministry on Cooperation with CIS-Participant States is the federal organ of executive power which is charged with the task of implementing state policy in the sphere of Russia's interrelations with the Commonwealth and Baltic states. In this respect, it is a unique department. It is called upon not only to develop the strategy of cooperation with these states for the future, to prepare draft treaties and agreements in the most varied spheres of interaction with them, but also to coordinate the activity of the Russian ministries and departments for the purpose of realization of a unified state policy in this sphere. Minsotrudnichestvo [Ministry on Cooperation] of Russia, in conjunction with the MFA [Ministry of Foreign Affairs] of Russia, provides for preparation of proposals and all materials necessary for the President of the Russian Federation and the Government of the Russian Federation to conduct bilateral negotiations, as well as meetings of the Council of the Heads of State and the Council of Heads of Government of the CIS.

I would like to emphasize in connection with this that the relations with the Commonwealth states are an entirely specific sphere, in which political, economic, social, defense, ecological and many other problems are tied into a single knot. Naturally, the sphere of this activity includes numerous Russian ministries, departments and organizations. And it is extremely important that, in resolving their questions, they proceed from a single strategic line, whose essence consists of the intensification of integration processes and consistent formulation of the Economic Union. Therein lie the basic interests of Russia. Such a strategy lies at the basis of the state policy ratified by the supreme organs of state power of Russia.

Understanding the entire measure of our responsibility in this sphere, we are currently completing the preparation of a new statute on Minsotrudnichestvo of Russia. It provides for an increase in the coordinating and control functions of the ministry, and at the same time a more clear-cut delineation of functions between the ministries engaging in the problems of the CIS. In this sphere, we will cooperate most closely primarily with the MFA of Russia, which has been charged with the functions of implementing general Russian policy in relations with the Commonwealth states.

Minsotrudnichestvo of Russia, however, devotes more attention to development of strategic documents and organization of activity of ministries and departments on interaction with the Commonwealth states in trade-economic, production, social, and scientific-technical spheres, primarily from the standpoint of ensuring the interests and economic security of Russia. It was specifically of such a role of Minsotrudnichestvo of Russia that President of the Russian Federation B. N. Yeltsin spoke at the last meeting of the Council of the Heads of State in Minsk, defining the character of its interaction with the recently created Inter-Governmental Economic Committee.

[Correspondent] Do you feel a certain specificity in the relations with various states entering into the CIS?

[Serov] Obviously. And this specificity is determined not by our specific attitude toward one country or another. The principle basis of interaction of the CIS participant states has been jointly determined by an entire packet of multi-lateral documents, including the CIS Charter, and the Russian Federation strictly adheres to the principles secured in them.

The problem lies elsewhere. During the time of their sovereign existence, the former union republics have begun to seriously differ in their rates and character of market transformations, as well as in their socio-economic and political position. And it is clear that these objective conditions cannot help but influence the character of mutual relations with them.

The entire difficulty of practical activity in this sphere consists specifically of building relations with each country in such a manner as to comprehensively consider its specific peculiarities and at the same time to achieve progress in the development of integrational processes within the framework of the entire Commonwealth. I believe convincing testimony to the effectiveness of such an approach is the signing of the treaty with Belorussia on creation of the Customs Union, which was soon transformed into a trilateral union consisting of Russia, Belorussia and Kazakhstan. In essence, these countries, due to their readiness, are the first to solve those problems which all the participants of the Treaty on the Economic Union have placed before themselves.

[Correspondent] In recent months, an unprecedented "breakthrough" in rapprochement of Russia and Belorussia has been noted. In this connection, what new steps will be undertaken, according to your information, for purposes of continued re-integration of the two once fraternal republics?

[Serov] The main thing is to conclude the formulation of the Customs Union. Today the first stage of this work has generally been passed, in the course of which, specifically, tariff and qualitative limitations on mutual trade were repealed, rates of customs duties were unified, and complete correspondence of trade regimens of both states in regard to third countries was achieved. Next will come more complex tasks: Rapprochement and unification of the currency, pricing, monetary-credit, budget and other elements of economic policy, which will make it possible to ensure coordination of national economic systems and ultimately to create a common market of goods, services, capital and manpower.

Other aspects of intensifying cooperation with Belorussia are also being developed. Specifically, agreements on a unified scientific-technical space of the two countries are being prepared, as well as documents which open good prospects for interaction in the sphere of cadre training, and also regulating the problems of citizenship and migration of citizens.

Russia and Belorussia intend, within the framework of the formulated general military-strategic space, to expand interaction of their armed forces, cooperation of military production and standardization of arms. Moreover, they will proceed from the principle of joint utilization of military facilities and arms on conditions established for the national armed forces, as well as the joint use of defense facilities. The defense of the external borders of our states will be implemented through joint efforts.

In short, good prospects are emerging for the development and intensification of the entire complex of economic, social and political relations with Belorussia.

[Correspondent] How can you evaluate the level of realization of the agreements adopted at the traditional meetings of heads of state and heads of government of the CIS countries? Has there been a practice of "revision" of entire packets of such documents?

[Serov] All the years since the beginning of formation of the Commonwealth of Independent States were a period of search and development of an effective mechanism of interaction of the former USSR republics with consideration for the political sovereignty which they had attained and the transition to a market economy. The decisive role in implementing this extremely difficult and unprecedented work belongs to the Councils of Heads of State and Heads of Government of the CIS.

Today we may say that, through joint efforts, we have been able to overcome the standard-legal vacuum in mutual relations of the new states which was formed after the disintegration of the USSR, and to create the necessary prerequisites for real development of integrational processes. This is perhaps the main effect of the agreements signed at past meetings of the Councils of Heads of State and Heads of Government of the CIS.

At the same time—and this we must say most definitely—the problem of realization of the agreements is one of the most acute problems in the interactions of the states within the framework of the Commonwealth and the Economic Union, and one which has not been resolved in proper measure. Many of the signed agreements are not being implemented, or not implemented in full measure. This is explained by an entire series of reasons.

Part of them are associated with the change in the objective conditions of cooperation. For example, the introduction of national currencies has led to the "revision" of an entire packet of agreements intended for the use of the Russian ruble. The violation of the necessary sequence in preparation of a number of documents is also making itself known. Back in December of 1993, an agreement on support of production cooperation was signed, but its realization is being hindered by the lack of regulation in the regimen of trade and payment-accounting relations. There are difficulties with ratification of signed documents. Many agreements are not being fulfilled because they are of a framework character, do not contain a mechanism for realization, and are not supported in time by direct-action agreements.

However, the main reason consists of the fact that, on the whole, within the scope of the Commonwealth no mechanism has yet been worked out for implementing control over the course of realization of agreements and responsibility of parties for fulfillment of their assumed obligations. These questions are resolved primarily on a national level. Moreover, they are resolved in various manner and with varying degrees of effectiveness. In the Russian Federation, based on the results of each session of the Council of Heads of State and Council of the Heads of Government, the government, by special order, defines the tasks for the ministries and departments responsible for realization of the corresponding agreements.

At the present time, in accordance with the Memorandum of the Council of the Heads of State, work is being developed on creating a mechanism of interaction of the CIS countries to ensure fulfillment of multi-lateral agreements in organic combination with adoption by the charter organs of the Commonwealth of operative, including mandatory, decisions within the limits of their competency and working out an effective system of control in this sphere.

Our ministry is also taking a most active part in this work. We are speaking, specifically, of developing the very technology of preparing agreements, which in our opinion must provide for the questions of responsibility of the parties, the mechanism of resolving disputes and the application of sanctions for violation of responsibilities. At the meetings of the Council of Heads of State and Council of Heads of Government and the other statutory organs of the Commonwealth, it is expedient to regularly review the course of fulfillment of the agreements. At the present time, we have already entered such a stage of cooperation where progress cannot be changed by the number of signed agreements. The main thing is that there have been real positive shifts in various spheres of cooperation.

[Correspondent] Could you explain in more detail the mechanism of preparation and discussion of agreements and treaties common to the CIS at the preliminary stages?

[Serov] This mechanism has already been formulated in its basic traits, although it requires further improvement. As a rule, the initiative of preparation of agreements proceeds from the CIS participant states, the statutory and sectorial organs of the Commonwealth, which in accordance with the established order prepare also the preliminary drafts of the documents. These are prepared for review at the meetings of the Council of Heads of State and Council of Heads of Government of the Commonwealth by means of their revision and coordination by groups of experts, which include official representatives of the states, representatives of appropriate organs of the Commonwealth, expert-specialists and other persons. The draft documents coordinated by them, with recommendations on the expediency of their adoption, are brought to the attention of the states, and in the case of a positive attitude on the part of the latter, are included by the executive secretary on the agenda of the next meeting of the Council of Heads of State and Council of Heads of Government.

And wherein do we see the shortcomings of the practice which has been formulated? First of all—we are not always able to ensure a stable complement of the expert groups. When the states send experts with varying levels of competency and authority to discuss the same questions, it is difficult to expect quality preparation of the documents.

The formulation of the agendas of the meetings of the Council of Heads of State and Council of Heads of Government on the basis of the "accrued work" of the expert groups often leads to their becoming overloaded with a large number of secondary questions, to the detriment of a review of the key problems of cooperation which have strategic importance. Evidently, it is time to transfer numerous questions over for final resolution to the level of the Inter-Governmental Economic Committee, the Council of Ministers of Foreign Affairs, the Council of Ministers of Defense and other organs of the Commonwealth.

At the present time, the preparation of the draft Rules of Procedure of the Council of Heads of State and Council of the Heads of Government of the CIS is being concluded at the expert level. Minsotrudnichestvo of Russia has taken a most active part in formulating the position of the Russian side on supporting this important document. I hope that our proposals will help improve the practice of preparation of agreements and treaties common to the CIS.

[Correspondent] What are the mechanisms of your ministry's interaction with analogous organs of the Commonwealth countries?

[Serov] Specifically speaking, an organ similar to Minsotrudnichestvo of Russia has recently been created only in Kazakhstan, and we immediately established the closest contacts with it, and are sharing our work experience. We are very closely interacting with various departments of the Commonwealth countries in the course of development of multilateral and bilateral agreements, as well as in preparations for high-level visits. Very often the meetings of the groups of experts from the CIS countries are held in the building of Minsotrudnichestvo of Russia, and this creates additional possibilities for working contacts of specialists engaged in various problems of interaction of the Commonwealth states. We also use official trips by workers of our ministry to the near abroad for these purposes.

On the whole, we must say that cooperation with the organs of executive power of the Commonwealth countries and ongoing contacts with our colleagues gave great significance in ensuring success in various negotiations and meetings.

[Correspondent] The next meeting of the heads of state and government will be held in Russia, in Sochi. Have the preparations for this summit begun? Can we already now, as they say, predict for the future those questions which will be especially current next Fall?

[Serov] Of course, preparations for the Fall meetings of the supreme organs of the CIS have already begun. And the question on procedure of work of these organs of the Commonwealth is one of those which is proposed to be included on the agenda of these meeting. There are many proposals on other questions as well.

Specifically, Minsotrudnichestvo intends to speak out with an initiative to propose from the Russian side that the heads of government review the question of the course and prospects of formulation of the Customs Union. I believe that specifically this question is taking on most current importance. Today it is extremely important to know the possible new participants in the Customs Union or, in other words, to determine its future outside perimeter, without which it is impossible to competently resolve the questions of arranging the customs boundary.

The review of this question, in our opinion, should most expediently be performed in the form of a free discussion, with presentation of the positions of various states, and the results of the discussion could be the appraisals of the status of formation of the Customs Union and the definition of basic directions of further work in the sphere which corresponds to the instructions given to the MEK [Intergovernmental Economic Committee] and other organs of the Commonwealth.

The question of the Payments Union also requires analogous discussion for the purpose of bringing its as yet rather abstract model to the level of an operating system.

[Correspondent] How do you appraise the level of informational provision to the population of the near abroad regarding the affairs and current policy of Russia?

[Serov] This is a very important question. We may state with satisfaction that the interest of citizens of the Commonwealth states toward Russian information sources is retained at a rather high level. At the present time, for example, according to the available data, the programs of the AO [joint-stock company] "Public Russian Television" (prior to 1 April 1995—the "Ostankino" programs) are viewed by about 95 percent of the population. The VGTRK [All-State Television-Radio Company] "Rossiya" has a rather broad audience of listeners. Its broadcasts are received in Azerbaijan, Armenia, Belorussia, Georgia, Kazakhstan, Tajikistan and Turkmenistan, and reach around 75 percent of the population. The "Radio Rossii", "Mayak," and "Radio-1" broadcasts are also popular.

However, due to financial difficulties, recently there has been an ongoing process of cutting back the volume of broadcasting (financed, for example, by "Ostankino"—AO ORT [joint-stock company Public Russian Television]—by 3.5 times), as well as cutbacks in the number and capacity of the transmitters. This leads to a sharp reduction in the zone where the broadcasts are received. Measures are currently being undertaken to find a solution to this situation.

Specifically, there are plans to hold negotiations with the Commonwealth states on concluding bilateral agreements regulating the order and conditions of broadcasting programs of Russian television and radio companies on the territories of these countries.

The scope of informational provision of the population of the Commonwealth countries is expanding along the line of the inter-state television-radio company "Mir." It is changing over to 5 hours of broadcasting on the AO ORT channels. A project has been developed for the multi-functional television-radio broadcasting satellite system, "Mir," which envisions the creation of separate broadcasting channels for the MTRK [Mir Television and Radio Company]. Other measures directed at more complete informational provision to the population of the Commonwealth countries are also being undertaken, primarily by fellow countrymen, and dealing with the politics and affairs of Russia.

[Correspondent] Could you recount in a little more detail the results of the recent visit by Prime Minister V. Chernomyrdin to Tashkent?

[Serov] Today President of Uzbekistan I. Karimov unambiguously stated that his main partner is Russia, and that he has proceeded and is proceeding from the principle of creating the most optimal mutual relations, and of giving priority in all his activity primarily to interrelations with Russia. In all of his speeches everywhere, before correspondents at a major press conference and at a reception in the presence of all the diplomatic represenatives, he has unambiguously stated this. I. Karimov is right also about something else, and this he also emphasizes. That is, that Russia must exhibit greater activity in interrelations with Uzbekistan. These are partnership relations, and we are proceeding from the assumption that there are two equal partners.

Uzbekistan is a region where the least decline in production has been allowed for the present day. Like any state, it has its negatives and positives, but on the whole our relations today are developing in that channel which is directed toward deep integration. Not everything is unambiguous, and we all understand this perfectly well. The task of creating financial-industrial groups has been set. Moreover, we have agreed that within the course of the month we will develop a specific list of industrial productions where we must create financial-industrial groups.

In the course of the visit, the following documents were signed: A 2-year trade-economic agreement; an agreement on science, culture and technology and an agreement of cooperation by our scientists in development of a unique observatory on the Sufo Plateau. So that here, most unambiguously, the visit went positively. A common language has been found.

President I. Karimov has great respect for Viktor Stepanovich Chernomyrdin. And he does not hide this fact. He has stressed it everywhere. He knew him even in the times when they were developing the oil- and gas-bearing provinces in Uzbekistan. He knows that Viktor Stepanovich made a great contribution there. Therefore, our task as a ministry, and the task of those who are a party to the matter, is to take all measures for accelerating the processes of integration which must take place between Uzbekistan and Russia.

At the present time, there is a small indebtedness by Uzbekistan to Russia, which was formed in 1991-1992 under the system of mutual accounting. However, there is also somewhat of a paradoxical situation: Today Russia owes Uzbekistan. Within the scope of the Trade-Economic Agreement of 1995, Uzbekistan has fulfilled all of its obligations. The protocol which was signed in the Spring of this year during Volyshakov's visit to Tashkent, where the parties assumed obligations on commodity exchange, was fulfilled by Uzbekistan to the letter. As a result of this, it shipped cotton to Russia, but Russia was unable to pay for it. Today the debt to Uzbekistan is on the order of $115 million. Therefore, all the talk about who is feeding whom is simply inappropriate. We are speaking out for the creation of only partnership relations. While yesterday some said that we were supplying power resources to the wrong place, while last year and the year before we supplied 3-5 million tonnes of oil a year to Uzbekistan, this year we are supplying only 750,000 tonnes. Uzbekistan is moving away from deliveries of Russian oil. They are taking measures there to increase profits. Beginning with next year, Uzbekistan also intends to become self-sufficient in bread.

Speaking of the main directions of cooperation, we must note that there is an entire series of industries where close integration exists. In order to develop this, it is necessary to create joint productions. One of the promising forms is the formation of financial-industrial groups (FIGs). An agreement on FIGs in the sphere of aircraft building on the base of the Tashkent Aviation Plant and the "Ilyushin" group from the Russian side has been signed. At the present time, questions on gold mining in Muruntau and Navoi are being worked out, and cooperation of a group of Minatom [Ministry of Atomic Energy] enterprises and a number of chemical enterprises has been outlined. The question of creating a textile holding company, which would include all enterprises engaging in all aspects of the production of cotton, from raising to processing, is being worked out. This will be a strong basis for integration.

*Measures To Defend CIS Aviation Market Viewed

*954F3157A Moscow SEGODNYA in Russian
12 Aug 95 p 3*

[Article by A. Andrianova: "Interstate Aviation Committee Attempts To Protect CIS Airspace"]

[FBIS Translated Text] **Air Transporters To Observe Norms of Chicago Convention**

Problems concerning protection of the air transport market in Russia and the Commonwealth were discussed at a conference of the heads of aviation companies and representatives of aviation administrations of CIS countries which was held yesterday. At present, a growing share of the air transport market is being taken over by airline companies in the far abroad. Participants at the conference adopted proposals, which were prepared by the Interstate Aviation Committee (MAK), to protect the domestic air transport market

Measures contained in the MAK proposals envision resolution of problems in civil aviation linked with the significant decline in the extent and level of safety and the lack of government support of air transport. By the way, information from the committee on results of the meeting of the aviation enterprises emphasized that realization of MAK proposals will not require additional budgetary appropriations.

MAK proposed designating the status of flights between CIS countries as international flights, which corresponds to the norms of the Chicago Convention (1944). Flights between Commonwealth countries will be regarded as flights between sovereign states. The Interstate Aviation Committee also intends to review issues dealing with taxation in the field of civil aviation in CIS countries. That pertains to aviation fuel and lubricants being acquired and technical supplies that are used, as well as to acquisition and leasing of aviation equipment and spare parts. It was recommended that taxes on revenues and profit of enterprises—operators of air transport—be lowered. It is necessary to work out and implement at the interstate level a system precluding discrimination against Commonwealth air transporters in the sale of fuel and lubricants at CIS airports. In addition to that it is planned to ease border and customs formalities in air transport between CIS countries.

Presidents Seek Sponsors To Rescue Aral

954F3173A Moscow ROSSIYSKAYA GAZETA in Russian 18 Aug 95 p 12

[Report by ROSSIYSKAYA GAZETA staff correspondent Vladimir Berezovskiy, under the rubric "Ecology": "Will a River of Dollars Flow to Aral? Presidents of Central Asian Countries Search for 'Sponsors' for the Dying Sea"]

[FBIS Translated Text] Tashkent—The leaders of the Central Asia republics and Kazakhstan outlined some measures on the revival of the Aral, which may get under way as early as this coming September.

Let us remind our readers that an Intergovernment Council and an International Fund were set up at the summits in Kzyl-Orda and Nukus.

The Aral is a disaster zone. Over the past 30 years the sea has lost half of its depth, the shore line has moved by 80-100 km, and fishing has practically ceased, with fish until recently being brought to the local canning plant from as far as the Baltics. The Amudarya and Syrdarya have turned into gutters, collecting along their entire length industrial waste and the saline water, saturated with herbicides and other chemicals, left after the irrigation of huge plantations of the "white gold." The Aral region's population of 10 million is forced to drink this poison, at the cost of their health. In Karakalpakia alone, the incidence of viral hepatitis jumped 4.9-fold over the past 10 years; kidney diseases jumped 10-fold; respiratory and circulatory system diseases, 60-fold; and anemia, 550-fold. People are being literally mown down by cancer, tuberculosis, and high infant and mother mortality.

True, lately the Aral has revived somewhat. Several years of sufficiently abundant water have permitted the flow of water into the dying sea to perceptibly increase. But nature's mercies are not endless....

Only joint efforts and big money can save the Aral, or to be precise, at least preserve it in its current state. This was the main topic of the Tashauz meeting. Members of the Intergovernment Council agreed to contribute to the new fund 1 percent of the national income annually. However, last year only Uzbekistan and Kazakhstan shelled out the money. Turkmenistan allocated even more money than planned, but spends it exclusively on its territory. Kyrgyzstan and Tajikistan, situated in the upper reaches of the region's two main rivers and not as much affected by the ecological catastrophe, did not find a kopek.

Quite logically, the heads of the Central Asian countries and Kazakhstan appealed to the international community for help.

At a conference, held in Paris under the auspices of the United Nations, a decision was made to allocate $31 million for the rescue of the Aral. Seven priority projects have been defined—for instance, on more rational distribution of river water and combating mud flows. The estimated cost of the main part of the international program, projected to take 10-15 years, already is as high as $200 million.

The key question is how to get this money and spend it intelligently. A multitude of the wildest projects have been proposed on the subject of the Aral. Some propose to pump the water over from the Caspian; others—from the Ind and Siberian rivers; still others—to drill tens of thousands of artesian wells around the sea. It is more realistic, however, to dig collectors along the Amudarya; implement a reconstruction of the Karakum canal—the most profligate water user in the world, of obsolete water reservoirs, and a dense network of intra-farm irrigation systems; and learn how to spend the precious irrigation moisture prudently.

Much will be decided with respect to the Aral's fate on 18-20 September, at the international conference that is going to be held in Nukus. A visit by U.S. Vice President A. Gore is expected. Another summit of the Aral Intergovernment Council will be held at the same time. Actually, it will probably increase through the addition of a new member—Israel, which has allocated $3 million as an initiation fee. Meanwhile, a decision has been made to set up a special Aral-Ecobank and appoint Turkmenistan Deputy Prime Minister M. Rakhapov the fund's executive director.

In the spring, I. Karimov, E. Rakhmonov, A. Akayev, S. Niyazov, and N. Nazarbayev signed a joint statement in Tashauz. In it, they emphasized that their countries do not have territorial, political, or other claims against one another, and promised to refrain even from verbal comments that could be potentially damaging to good relations.

One can only hope that these good-neighbor principles will help to launch a full collaboration for the sake of saving the Aral.

*Russia's Responsibility for, Commonality with CIS States Questioned

954F3057A Moscow LESNAYA GAZETA in Russian 6 Jul 95 p 1

[Article by Valeriy Begishev: "Are We Strangers?"]

[FBIS Translated Text] President Yeltsin's recent speech at a reception honoring the graduates of military academies must have caught the attention of people in the states of the "near abroad" because of this statement: "We will also feel a political and moral responsibility for the fate of the countries and peoples who marched alongside the Russian State for hundreds of years."

I doubt that it pleased someone like President Nursultan Nazarbayev of Kazakhstan, who made it clear, in the past and then again after Boris Nikolayevich's frank statement, that his republic would not tolerate any "big brother" watching over it. It probably also agitated people in some other "fraternal" capitals, especially if they heard the speech and then read the opinion of an ordinary citizen, Russian General Andrey Nikolayev (who is not, incidentally, all that ordinary, because he is the director of the Federal Border Service), in ARGUMENTY I FAKTY. Here is what he had to say about the presence of Russian troops in Tajikistan: "Any normal person could not even suggest that we leave. After all, Russia invested colossal resources and the labor and blood of many generations there." Please tell me, where were these not invested? This is absolutely applicable even to the Baltic states. After all, they were also first annexed and then liberated from the Germans at the cost of many lives.

Obviously, the republics that took off in separate directions after the failure of the August putsch could not become strangers right away. This never did happen, in spite of the efforts of some politicians. Nevertheless, as Mikhail Gorbachev used to say, "the process continued." And whereas it was encouraged "on that side" by the intoxication with the completely unexpected windfall of independence and by the sense of national identity which had been stifled by the totalitarian Soviet regime (we can recall how ruthlessly the CPSU and KGB obliterated even the slightest signs of it), it was fueled on this side by ordinary boorishness and great-power arrogance. Here is one of the latest examples: President Yeltsin had a meeting with his Moldavian colleague, Mircea Snegur, and proposed the establishment of a Russian military base within the territory of that small republic. Someone might have taken a look at its constitution before the start of the negotiations and seen that it specifically prohibits agreements of this kind, or they might have remembered the resolution our own parliament passed just a short time earlier on the Black Sea Fleet, and the even earlier resolution on the Crimean problem.... There are persistent attempts to institute bilingualism (with Russian as the second language) in various CIS countries. How can we be surprised that these proposals are rarely accepted? Ukraine would seem to be so close to us in this respect, but a survey conducted a few days ago revealed that even in Kiev, where the native language was rarely used even in casual conversation in the Soviet days, only 39 percent of the respondents were in favor of official status for the Russian language.

In our time friends are won not by attempts to stir the food cooking in someone else's pot on the pretext that it was once our common vessel, and not by references to unlimited assistance to our own disadvantage and by harsh reprimands for their refusal to listen. The most important thing, of course, is economic cooperation, but it has to be well-planned, mutually beneficial, and devoid of any hint of patronage. As soon as anyone starts talking about the offer of a "fraternal helping hand," both sides are often offended. Here is one example. Even before all of the publicity about the newly opened Belarusian-Russian border had died down, the unconcealed and uncontrollable traffic in contraband goods across this border became apparent. They raised the barriers and exchanged embraces, but now Belarus is burning its winter supply of fuel because deliveries of gas from Russia have been reduced by a factor of 2.5. There is a good reason: No one is paying for the gas. But why did no one foresee this conflict soon after the Belovizh accords had been signed? Because, in my opinion, people (at least in Moscow) did not expect them to last.

•Vilification of Russia in Ukrainian Media Decried

954F3057B Sevastopol FLAG RODINY in Russian 14 Jul 95 p 2

[Article by Yuriy Solomatin, chairman of the board of the "Kievan Rus" Russian Cultural Society (Kiev): "Who Benefits from the Vilification of Russia?"]

[FBIS Translated Text] Articles—undoubtedly written to order—about the "Chechen people's heroic struggle" for their "autonomy" and "independence" were printed recently in several Ukrainian press organs. The leader in this dubious undertaking was GOLOS UKRAINY, the organ of the Supreme Council of Ukraine, with the series of articles by journalist L. Kokhanets, the "national-awareness" democrat who effectively made this newspaper a mouthpiece of the Ukrainian Nationalist Congress (KUN). The "great-power advocates" from I. Yukhnov's group (UKRAINSKA GAZETA, 8 June 1995), the Rukh "democrats" (CHAS-TIME, 30 May 1995), and the allegedly progressive journalists of KIYEVSKIY VESTNIK have done their best to keep up with KUN.

What are the nationally aware gentlemen howling about? The howl sounds familiar: Russia is the evil empire and the Russian army is a gang of outlaws and scum.

You bore me, Gentlemen! Your arguments are just a rehash of all the old familiar lies of those who despise Russia and the USSR, from Bismarck to Reagan. They managed to destroy the USSR, but they will never destroy Russia! The truth about the events leading up to the destruction of the USSR will get through to the people someday. The price our people paid for everything connected with the so-called "perestroyka" was too high to permit a repetition of such a destructive scenario, this time throughout the vast expanses of Russia itself. The events in Chechnya represent one of the acts of this scenario.

Today Russia's enemies are the enemies of the fraternal friendship of all the nationalities of the former USSR. Yes, the events in Chechnya are a tragic and grim reality, but when the actions of one side are vilified and the actions of the other are idealized, we have to wonder who benefits from this. When the events in Chechnya are given a biased interpretation in some Ukrainian news media, this turns into a sweeping campaign of provocation, with Ukraine itself as one of its targets.

The events in Budennovsk in Stavropol Kray, where Dudayev's men took several hundred patients and medical personnel hostage, completely revealed the lupine teeth of these "patriots." How can the "Bolshevik" commanders with their defensive NKVD [People's Commissariat of Internal Affairs (1917-1946)] detachments, the same men the humanists like Banderov and Dudayev like to cry about, compete with them? That is why it might be the right time to cite some little-known facts revealing the true character of these "national heroes" and their ideological predecessors.

It is true that every national group has accumulated many complaints about its neighbors, both near and far. We can recall the era of the conquest of the Caucasus by General Yermolov and his fight with Imam Shamil. This is popular today. But we should also recall some more recent events, preceding the famous decision to deport the Chechen people. Here is a historical report based on the information of the social movement called the "'Realists' Club" (PRAVDA ROSSII, 1 June 1995):

"From the first days of the Great Patriotic War the activity of national elements increased dramatically throughout the Northern Caucasus, especially in Urus-Martanovskiy, Achkhoy-Martanovskiy, and Sovetskiy rayons in Chechnya.

"Political reports submitted to the military council of the SKVO [North Caucasian Military District] said that most of the local population did not want to fight in the war against the German invaders.

"Refusing to join the struggle against the Fascists, the local population evaded the draft on a massive scale (63 percent of the draftees). Furthermore, the Chechens and Ingush insulted the Ossetian population, which was almost completely mobilized, and said that if Turkey entered the war, they would slaughter the whole Russian population.

"The evasion of the draft resulted in a mass exodus of the male population to the mountains and forests and the formation of armed detachments of 600-700 men. Their continued existence in the mountains was made possible by total public support based on extensive ties of kinship. Some of these gangs had large supplies of weapons, even artillery and mortars.

"Local residents who had already been mobilized deserted their military units en masse, according to prior agreements and with weapons in hand, and joined these detachments. The leaders of the gangs were usually former party and state workers from the local leadership, including the personnel of NKVD agencies. Furthermore, these were not isolated cases, but a phenomenon of massive and pervasive proportions. Some of the partisan detachments that were made up of local activists to resist a possible German occupation left for the mountains and joined the gangs. They established direct contact and radio communications with the German command when the German troops reached the Northern Caucasus. These detachments fought in battles on the side of the German troops and were also active in the rear guard of the Red Army, where they conducted subversive activities.

"Members of the local population, former Red Army soldiers who voluntarily went over to the side of the enemy, formed the North Caucasian Legion (Chechens, Ingush, and Ossets), the Chechen-Ingush Infantry Regiment, and numerous punitive squads.

"Therefore, we can definitely say that the overwhelming majority of Chechens participated either directly or indirectly in subversive activity against the state."

So much is being said today about the deep religious convictions and chivalrous qualities of Dudayev's fighters. Incidentally, in fall 1942 representatives of the nationalists of the Caucasus gave Adolf Hitler the title of "Great Imam of the whole Caucasus." Actually, they were not the first in this "holy" cause: In summer 1942 the OUN [Association of Ukrainian Nationalists] leadership and the bishops of the Ukrainian Uniate Church, headed by Sheptitskiy, elevated the fuehrer to the rank of the "permanent top member of the Ukrainian national elite as Chief Ataman of all the Ukrainian Cossacks" (NOVAYA GAZETA, No 19 [86], June 1995). Therefore, it appears that today's nationally aware Ukrainians and the Chechen patriots still have the same leader.

The ardent fraternal love of those who still regard Adolf Hitler as a spiritual leader is also attested to by the fact that KUN people's deputies of Ukraine Krutsik and Protsevyat, who went to Dudayev's own stronghold this spring with solidarity-humanitarian aid, brought back a 12-hour video film from Chechnya, "Russism," which is now being shown by the Ivano-Frankovsk State Television Broadcasting Company, "Galichina," on pirated air time on the ORT channel (NOVAYA GAZETA, No 18 [85]). After this, can the people's deputies and the president of Ukraine really expect to sign a normal treaty on friendship and cooperation with the Russian Federation?

Now I will cite a few facts about the "chivalry" of Dudayev's soldiers. After the events in Budennovsk, this fig leaf fell off irrevocably. Last September the Chechen Department of State Security promised to turn Chechnya into "another Afghanistan" if Russian troops were sent to the region. This was illustrated clearly at that time by the sinister spectacle the "chivalrous" Dzhokhar Dudayev organized in Groznyy's central square. The severed heads of three of his opponents (Labazanov's murdered brother, Labazanov's friend, and an opposition fighter) were displayed in the center of the city in June 1994. They were shown on television, and there were pictures of them in the newspapers. This very fact signifies a declaration of total war to any unbiased professional analyst, and it is a sign that any illusions and peacekeeping efforts are simply out of the question.

Here is what the BBC reported in May 1995 (NOVOSTI, 26 May 1995): "Twenty-five Russian soldiers who were taken prisoner by Dudayev's men were tortured and then castrated. This was reported by the BBC defense correspondent with references to the data of Western intelligence agencies. On a news program he cited evidence of the savagery of Dudayev's men and their violations of the Geneva conventions on the status of prisoners-of-war."

There are countless data of this kind....

And what happened to the Russians in Chechnya, who suddenly became outcasts? According to the data of federal agencies, a quarter of a million Russians were living in Chechnya. At the most, only one-sixth are still there. No one can say how many of them died just before and during the hostilities. The head of the Government of Chechnya, Salambek Khadzhiyev, says that more than 10,000 residents were the victims of the lawlessness in Chechnya just before the start of the hostilities. Who benefits from the silence about this aspect of the events in Chechnya? Who benefits from the vilification of the Russians?

We should look for the answer outside Chechnya—in Europe, in the processes occurring there. The post-war Yalta-Potsdam agreements are collapsing, and a new division of the world is imminent. The destructive scenario prepared for Russia and Ukraine is being tested on the Orthodox Serbs in Yugoslavia. No one should be deceived by the political maneuvering in connection with the European Union. In essence, this is a plan to create a Germanocentric Europe, with the traditional emphasis on eastward expansion.

Pope John Paul II has joined this "race to the East." In his latest papal encyclical, which became the sensation of the century, he solemnly advocated the unification of Catholicism and Eastern Orthodoxy as soon as possible—before the year 2000. Now that Russian Orthodoxy is on the rise, why is it being urged to merge with the dominant religion in several countries of the West and the "Third World"? What lies behind the papal encyclical? Is it just a change of tactics in the world leaders' unchanging strategic line of a "new world order" of the Western type? Think about this. Think about it, all of you religious and non-religious sirs and gentlemen!

A new round of eastward expansion, oddly enough, would meet with the approval of the pro-Jewish elite of rightwing Republican America (Nixon-Cheney-Baker-Dole), who are starting to feel that even they do not have the strength to rule the whole world. They want to get rid of the Democratic Clinton and put their own man in power even before 1996. They want the new Greater Germany to serve as their permanent deputy in Europe (and from there, irrespective of the wishes of this scenario's authors, it is only a short step to the restoration of the short-lived Berlin-Tokyo axis; after all, for both of the conquered countries, Russia and the United States represent the Yalta predators). The latter, the United States, will have to be tolerated for now, but the fragments of the USSR—Russia, Ukraine, and so forth—have to be turned into a disparate and amorphous mass, plagued by inner conflict and ripe for colonization. This is already being carried out successfully to the accompaniment of the ecstatic moaning of the "national-awareness advocates" about Ukraine's European affiliation and Russia's eternal friendship with the United States.

Now I can answer the question in the title of this article: "Who benefits from the vilification of Russia?" The ideological heirs of the men who swore eternal allegiance to Adolf Hitler in the Great Patriotic War of 1941-1945.

Those who do not understand this or have not noticed it can be described in this way: "They have neither minds nor hearts."

*Factors Driving Ethnic Conflict in Caucasus Discussed

954F3057C Moscow LESNAYA GAZETA in Russian 22 Jul 95 p 1

[Article by Valeriy Begishev: "Why Should They Have To Pay with Their Blood?"]

[FBIS Translated Text] After stipulating the "final" concessions to the Chechen side at the highest level, the delegation of federal officials returned to Groznyy. Judging by the statements of its members and leader, Minister of Nationalities Affairs Vyacheslav Mikhaylov, Moscow decided to defend the final frontier: to grant the rebellious republic every conceivable sovereign right within the federation framework, but to stipulate this framework unequivocally. Soon we will hear the response of Dudayev, or—if it is true that he no longer makes most of the decisions—of the resistance leaders.

I, however, was most intrigued by Mikhaylov's references to the "war party" in Moscow, the people who are earning capital from it and do not want it to end. Regrettably, I am afraid we will not learn their names in the near future, and maybe not at all, just as we never learned the names of the real instigators of the Karabakh conflict, the "sovereignization" of the Dniester zone, and the Abkhaz tragedy—and perhaps even the events in Bosnia today. I am certain that they were not Smirnov, Ardzinba, or Karadzhich, but completely different names. And the name in Chechnya is not Dudayev.

Regrettably, the old Roman precept—Look for those who can benefit—may have been applicable in this case as well if those who earned the blood-stained profits had lost their strength.

Anyone who is aware of the recent conditions in the present zones of the "post-socialist" inter-ethnic conflicts has to be surprised by the colossal speed and extremely weak causes of the emergence and development of separatist tendencies. Whereas the policy of the "gentle prodding" of the Armenians was already obvious in Nagornyy Karabakh, there was little evidence of Abkhaz oppression by the Georgians when the autonomous entity was still in existence, and the Chechens were certainly the dominant nationality in their autonomous region even under the Soviets.

On the level of regular daily contacts—and there is ample evidence of this—ethnic hostility was rarely seen, and what was commonly called "friendship among peoples" in the USSR was the norm. In any case, any kind of discord could be eliminated with relative ease by local governments with the support of Moscow.

The fights that did occur were usually between mafiosi in the criminal sector of the economy. That is why the inter-ethnic "strife" started to take on a brutal, absolutely uncivilized nature so quickly. What is more, many prominent members of the crime world became military leaders (such as Shamil Basayev at the time of the war in Abkhazia). It is probable that many people have already forgotten Mikhail Gorbachev's explanation of the reasons for the Karabakh conflict, but he was talking about the mafia and he based his conclusions on the data of law enforcement agencies. Did criminals make up the striking force in the Sumgait pogrom? I have heard from informed sources that the trouble in Abkhazia was caused by the Abkhaz mafiosi who decided to take advantage of the atmosphere of pervasive chaos to drive their Georgian rivals out of the republic.

It was only after this that the local intelligentsia (and its members who had moved to Russia), whose sense of national identity is always strong, joined the cause, particularly in view of the fact that a certain segment of the intelligentsia, especially people in the arts (this is also true in Russia), had a weakness for the "angry young men" they saw as symbols of the "counterculture." This was followed by the resounding slogans of self-determination, struggle for the triumph of national and religious values, and so forth. They aroused the people. For this reason, a few days ago, when Speaker Vladimir Shumeyko of the RF Federation Council and Russian Foreign Minister Andrey Kozyrev called the Ardzinba regime in Abkhazia criminal, even many of the people who are usually suspicious of these officials had to agree with them.

*Mutual Convertibility of Ruble, Uzbek Sum Decreed

954E1297A Moscow ROSSIYSKAYA GAZETA (EKONOMICHESKIY SOYUZ SUPPLEMENT) in Russian 18 Aug 95 p 13

[Decree No 759 dated 27 July 1995, Moscow, of the Government of the Russian Federation on the Signing of an Agreement Between the Government of the Russian Federation and the Central Bank of the Russian Federation, on the One Hand, and the Government of the Uzbekistan Republic and the Central Bank of the Uzbekistan Republic, on the Other, on Measures To

Ensure Mutual Convertibility and Stabilization of Rates of the Russian Ruble and the Uzbek Sum]

[FBIS Translated Text] The Government of the Russian Federation decrees:

To approve the draft of the Agreement Between the Government of the Russian Federation and the Central Bank of the Russian Federation, on the One Hand, and the Government of the Uzbekistan Republic and the Central Bank of the Uzbekistan Republic, on the Other, on Measures To Ensure Mutual Convertibility and Stabilization of Rates of the Russian Ruble and the Uzbek Sum, which was submitted by the Russian Federation Ministry for Cooperation With Member States of the Commonwealth of Independent States and coordinated with the Russian Federation Ministry of Foreign Affairs and the Central Bank of the Russian Federation.

To instruct A.A. Bolshakov, deputy chairman of the Government of the Russian Federation, to conduct negotiations with the Uzbek side and, on reaching an understanding, to sign on behalf of the Government of the Russian Federation the indicated agreement, permitting the introduction into the accompanying draft of changes and supplements, which are of no principled nature.

[Signed] V. Chernomyrdin, chairman of the Government of the Russian Federation

Economic Issues

*Reasons for Rise, Fall of Dollar, Ruble Rates Analyzed

954E1243B Moscow DELOVOY MIR in Russian 24-30 Jul 95 p 8

[Article by Candidate of Economic Sciences Mikhail Sukhov, Candidate of Economic Sciences Vladimir Safronov, and analysts Dmitriy Shabin and Irina: "Factors and Consequences of the Strengthening of the Ruble Rate"]

[FBIS Translated Text] **An analysis of the situation on the currency market and in the monetary and credit system leads to the conclusion that the observed strengthening of the ruble has a number of economic causes. The basic one lies in the fact that since the beginning of 1995, according to our evaluations, the nature of money circulation in Russian has changed. Whereas at the beginning of the price liberalization there was an increase in the dollar money supply, primarily in cash, since January the situation has changed.**

According to many signs, the import of foreign currency into Russia has virtually stopped. With due regard for the fact that the total volume of the dollar money supply circulating in the country's economy greatly exceeded the ruble supply at the end of 1994, it can be assumed that a certain saturation of the economy with the aggregate money (both ruble and currency) supply occurred. At the same time, a significant part of the foreign currency was used by owners, primarily the population, as savings. The seasonal splash of interest in the purchase of foreign currency occurred in January 1995, when the ruble money supply in cash decreased even in absolute terms. According to statements by the management of the RF Central Bank, currency reserves decreased significantly, which made it necessary to toughen the conditions of deductions into the fund of obligatory bank reserves, primarily with respect to currency resources, and to reduce the limit of the open currency position. In the end in late January-early February 1995 changes occurred in the situation on the currency market, owing to which it was possible to knock down the wave of seasonal demand for currency without a significant fall of the ruble rate.

The decrease in the ruble offer of monetary authorities became the characteristic feature of the further development of events in contrast to previous years. The budget deficit began to be financed primarily through emissions of state treasury bonds. The Bank of Russia stopped issuing centralized credits. It cannot be said that the demand for dollars decreased. To all appearances, the "hot" component of the investment ruble demand, primarily by the population, whose real income dropped from the beginning of the year, dried up.

During January-May 1995 in connection with the rise in world prices of basic export goods (as compared with the corresponding period of last year, of oil, by 23 percent, of gas, by 10 percent, and of oil products, by 16 percent) the export volume increased by 18 percent. The limited nature of effective demand, primarily the decrease in the population's real income, contributed to an increase of 28 percent, as compared with the corresponding period of last year, in the active foreign trade balance—to 10.1 billion dollars (including with countries of the far abroad, of 40 percent—to 8.9 billion dollars).

Furthermore, Russia began to receive the credit of the International Monetary Fund, which began to be sold on the domestic currency market.

Since April a significant deterioration in the positions of the American dollar—the basic foreign currency in domestic monetary circulation—on world markets has also been observed.

The effect of these numerous factors, which are due to various reasons, coincided during a limited stretch of time, which knocked out the dollar from the track of a moderate strengthening of the purchasing power in relation to the ruble as compared with domestic prices. At the same time, macroeconomic trends in economic development at the beginning of the year, in our opinion, do not form the prerequisites for a steady strengthening of the national monetary unit.

The factor of reduction in the volumes and then rates of increase in the ruble money supply began to have an effect on inflation. According to our evaluations, at present the lag of such an effect is three months. As compared with January 1995, in May the consumer price index dropped from 118 to 107.9 percent. However, the "background" inflation level formed primarily by nonmonetary factors continues to remain high. During the first five months of 1995 the consumer price index comprised 167 percent (during the corresponding period of 1994, 172 percent). At the same time, the rise in wholesale prices occurs at an outstripping rate (196 percent).

The intensifying payment crisis also raises doubts as to the realistic nature of forecasts of financial stabilization. According to the data of the RF State Committee for Statistics, on 1 April 1995 the total volume of debts in Russia's economy was 297 trillion rubles, exceeding the volume of the gross domestic product during the first quarter of 1995 (279 trillion rubles). At the same time, overdue debts comprise 42 percent of the total debts.

At the same time, in January-May there was an avalanche-like drop in capital investments from all financing sources (by more than 20 percent of last year's level). During January-May 1995 the volume of capital investments from all financing sources comprised less than 25 percent of the level of the corresponding period of 1989. According to the results of fulfillment of the federal budget during the first quarter of 1995, the share of state capital investments in budget expenditures comprised 5.2 percent as compared with 7.3 percent in 1994 and 11.8 percent in 1993. With an investment plan in the amount of 4.3 trillion rubles for the first quarter actual financing totaled 2.1 trillion.

The intensifying inflationary trends, underfinancing of investment needs of the economy, increase in nonpayments, and price disproportions have aggravated crisis phenomena in sectors oriented primarily toward the domestic market. During January-May the decline in machine building comprised 12 percent and the output of goods in great demand decreased by more than 30 percent. The total reduction in rates of decline in industrial production (the volume of industrial production during January-May 1995 comprised 96 percent in relation to the corresponding period of 1994 and during January-May 1994 in relation to 1993, 74 percent) was predetermined to a significant extent by the "achieved" scale of decline in production, which can hardly be considered a positive result.

In our opinion, one can talk about the formation of a certain volume of instruments of payment, including both the ruble and the dollar component, which is sufficient for the servicing of the commercial activity of economic subjects. With the strictness of monetary restrictions only a change in the situation with nonpayments can disrupt this stability. We assume that a drastic shift in the structure of monetary circulation (to which the growth of currency reserves of the RF Central Bank attests) cannot serve as the basis for the forecast of a long-term improvement in value criteria of money on the domestic market (strengthening of the currency rate and decrease in interest rates). Under conditions when a significant part of the ruble and currency money supply is not tied by credits for in the production of goods and services, which is aggravated by the investment crisis, the "hot" part of the money will regularly change its form from the currency form to the ruble form and vice versa.

The factors examined below will determine the further scenario in the development of events on the currency market.

Counteraction to the Fall of the Ruble Rate

Expanding opportunities of the Bank of Russia to carry out currency interventions, even at the rate of 5,000 rubles per dollar. The RF Central Bank can tie about one-half of the presently circulating ruble money supply (there are no accurate data on its amount after 1 April 1995).

A sluggish reaction of dollar owners to the change in the price conditions on the domestic market, which intensifies through the drawing of a significant part of the currency into illegal servicing of the movement of goods and services inside the country.

Some success of measures for tying funds in correspondent accounts of banks by state securities. During May and June 1995 the emission of state treasury bonds totaled 19 trillion rubles at face value and the volume of disposable balances of rubles during the same time, 16 trillion rubles. Banks are ready to credit the government and not to issue commercial loans, which attests to the extreme limitation of opportunities for the investment of bank funds.

Counteraction to the Fall of the Dollar Rate

A reduction in the active balance of payments, which is inevitable during a significant rise in the real rate of the national currency, can increase the demand for foreign currency on the part of importers. In our opinion, the restraining effect of increased customs duties is slightly overestimated. First, this measure, obviously, has a certain time lag connected with the period of turnover of imported goods on the domestic market. Second, under conditions of the lag in the rates of fall of the ruble rate (not to mention its strengthening) behind domestic prices importers will get the opportunity to increase ruble prices in a smaller proportion than the rise in customs tariffs, which will not lower, but, most probably, even increase the cost volumes of import.

An increase in the seasonal demand for foreign currency caused by tourism. Last year the negative balance of payments concerning this item totaled 5 billion dollars and there is every sign that this year it will not be smaller. The peak of the demand for currency for these purposes is during summer months.

An additional demand for interbank currency credit can be expected, since, for example, in Moscow the volume of loans in foreign currency exceeds 2.5-fold ruble loans. Banks inevitably will need currency liquidity to service clients' obligations.

The effect of this group of factors was formed by the prerequisites for the occurrence of great tension on the currency market in the autumn of the current year for the following reasons:

—The events of May-June indicate that since March-April 1995 the dollar rate has been slightly overstated. The market will need some time in order to reach a more stable level of support for the exchange parity.

—There is some uncertainty with respect to the possibility of keeping within the expenditures planned in the budget in August-October (seasonal factor).

—The consequences of the strengthening of the ruble rate for the foreign trade balance (reduction in the net influx of currency) and for inflation (increase in the ruble money supply) should be expected during approximately the same period (with due regard for a three-month lag).

—The recrediting by the government of the volumes of emission of state treasury bonds, which increased in May-June, occurs at the beginning of autumn.

—The forecast of the rise in interest rates on interbank credit also points to the heightened tension on the currency market at the beginning of autumn. Their stabilization in July and the beginning of a rise at the end of August can be assumed with sufficient confidence. Apparently, the September rise in interest rates will be supplemented by an increase in the profitability of state treasury bonds.

It can be expected that, in order to prevent a new inflationary spiral and an avalanche-like fall of the ruble, the RF Government and the Bank of Russia will take a number of steps, for example, the introduction of additional mechanisms of tying the emitted money supply (short-term deposits of the Central Bank at a low interest), expansion of the volumes of state treasury bonds, sale of part of the currency reserves, activation of monetary privatization, and intensification of the administrative regulation of the cash movement. It is quite possible that during a certain period these steps can prove to be sufficient for the neutralization of the surplus money supply and restraint of the growth of inflation rates.

However, reliance on the stabilization of financial macroeconomic indicators, including the currency rate, justifies itself only against the background of activation of the policy on tying the circulating money supply by investments. Other forms of neutralization of released financial resources can create market stability only for some time, until an economic crisis once again disrupts the semblance of stabilization. The emerging macroeconomic trends and strengthening of the ruble rate will have a strong effect on the current state of financial markets in the next few months.

An analysis of the dependence of the loan interest rate on the dynamics of the money supply M2 demonstrates a fact traditional for market principles of management. During a significant increase in the money supply the loan interest rate declines over the short term and rises over the medium term. This fact was graphically manifested in 1994 and, obviously, is manifested now. The significant increase of 17 and 20 percent in the money supply in April 1994 and 1995 respectively is characteristic, which sets a trend similar to that of last year for the very near future. In 1995 these processes intensify and are extended by the emission of the money supply by the Central Bank in May-June, which is carried out during operations on the currency market.

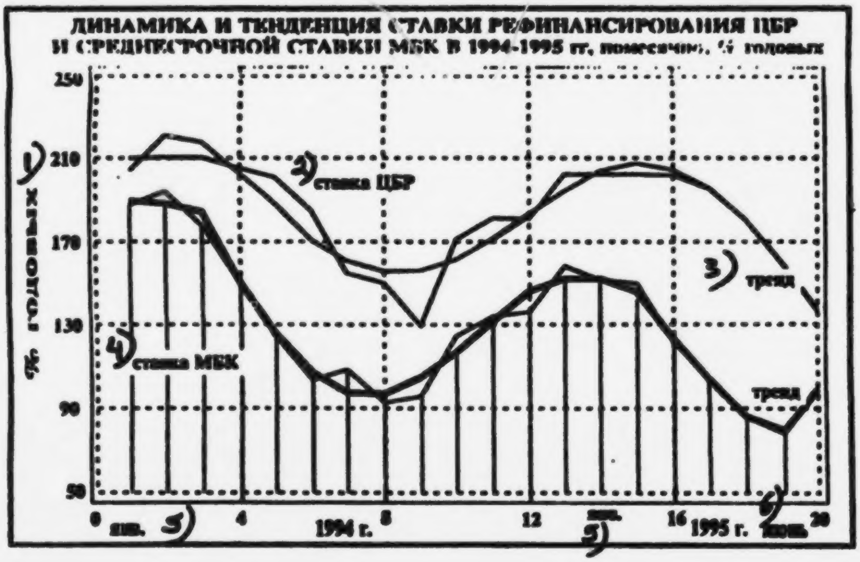
At present the interbank credit rate is formed regardless of the "positive real rate-negative real rate." The well-known law of supply and demand for free ruble resources (that is, which cannot be invested in state treasury bonds, currency, or other assets) has a greater effect. Participants in the market are not able to withstand the inflationary decrease in their assets, following the policy of a positive real rate on issued credits, in connection with the fact that the commercial credit rate is determined exclusively from parameters of profitability of the operations, for which the borrower takes credit, and of the cost of servicing of attracted monetary resources. We would like to note that the RF Central Bank conducts a policy of maintaining a positive real rate of refinancing through the establishment of an overstated, as compared with market interest conditions, payment for its resources and restriction on the volumes of unsecured emission.

An analysis shows that during a forecast of the interbank credit rate (in particular, short- and medium-term rates) it is illegitimate to be guided by inflation rates as the leading (determining) factor. In this case there is a need for a comparison of the profitabilities of the troika state treasury bonds-interbank credit-currency and for the determination of a more predictable indicator than the interbank credit rate. In our opinion, for now the ruble market of interbank credit plays a subordinate role in relation to other markets.

In the next few months the situation on credit markets will be determined by the combination of the downward macroeconomic trend (when one- to seven-day interbank credit rates are kept at an annual interest level of 10 to 30 percent) and of temporary sharp increases in rates during moments of activation of currency and state treasury bond markets (in this case an increase of one order in one- to seven-day interbank credit). Under these conditions a rate increase could cause at least a temporary dynamic rise in the dollar rate. As an analysis showed, in this case, that is, when the profitability of speculative operations with currency is higher than the profitability of interbank credit, credit rates rise, although with a lag in the profitability level, remaining at a high level for some time after the reduction in the profitability of currency operations, which, however, is not foreseen during the summer months.

Most probably, in the next few months the refinancing rate of the RF Central Bank will remain greatly out of touch with the interbank credit rate, because the policy of the Central Bank of Russia is aimed at retaining an "expensive" national currency (see graphic). This fact is recorded in the statement by the government and the RF Central Bank on economic policy for 1995: "The Central Bank of Russia will set the refinancing rate, as well as rates on the rediscount of bills and collateral credit, and all of them will be maintained at the level of existing interbank reference rates calculated for credits with comparable payment dates, or at a level exceeding these rates."

Dynamics and Trend in the Refinancing Rate of the Central Bank of Russia and in the Medium-Term Rate of the Interbank Credit in 1994-1995 per Month, Annual Interest Rate



Key: —1. Annual interest rate—2. Rate of the Central Bank of Russia—3. Trend—4. Interbank credit rate—5. January—6. June

The market of state short-term bonds, which recently has become the basic (along with currency policy) instrument of money and credit policy of the Bank of Russia, experiences a greater effect of macroeconomic indicators and of the condition of state finances than the interbank credit rate.

Forecasting the trends of the auction rate in the next few months, we believe that the emitter will go with comparative ease for an increase in auction rates in order to divert funds from the currency market. At present it is possible to observe the actions of the RF Central Bank aimed not merely at the displacement of foreign currency from the market, but also at adaptation to the changed situation on the currency market (in contrast to the first five months of the year, when the Central Bank very clearly set guidelines for the rise in the dollar rate) and stimulation of investments in the state treasury bond market, which for now has a low profitability, but has a tendency toward growth and is much more predictable and reliable.

Taking into consideration the fact that the Central Bank of Russia has virtually stopped centralized crediting, it can be assumed that a considerable burden in providing funds for the growing needs of the budget will lie on the state treasury bond market. In the middle of the summer the government will be faced with the matter of attracting additional funds for budget financing—credits for agriculture, for the purchase of goods for the north, and for social programs before elections in the form of an increase in wages, pensions, and other payments. An increase in the volume of emissions of state securities—mainly state treasury bonds—can be expected. Federal bonds, as a new and not yet "broken in" instrument, will not be used widely, despite the fact that these bonds are the most convenient instrument for the Ministry of Finance for borrowing funds. Being the longest-term securities and, at the same time, with minimum risk from the standpoint of the interest risk, on the one hand, they increase the duration of the state debt and, on the other, lower the cost of servicing of this debt, making it possible not to include a premium for the interest risk in the price. An increase in the emission volume will occur against the background of the expansion of the entire state treasury bond market, which can fully compensate for the possible growth of profitability and at best will bring about its insignificant growth. Moreover, the government can delay the issue of credits and attraction of funds to the end of summer-beginning of autumn, which will coincide with other factors working for a rise in the level of profitability on financial markets.

Thus, according to our evaluations, rates on one- to three-month credits and the profitability of state treasury bonds (everywhere interbank credit rates imply MIBOR indicators) will tend to rise to an annual interest of 150 percent at the beginning of August and of 150 to 170 percent at the end of August. We also believe that the instability of financial markets will be their distinctive feature during the third quarter of 1995, as compared with the corresponding period of 1994.

According to modeling results, in the summer the money supply will behave quite stably. After a sharp rise in May and June (probably, as a result of the purchase of dollars by the Central Bank) the nominal growth of the money supply in June comprised 14 percent. It is expected that the growth of the money supply in July will comprise 6 to 10 percent and in August, 4 to 8 percent. However, a certain growth of its volume can be assumed again in autumn. In general, the growth of the money supply depends to a significant extent on inflation: When the dynamics of its growth changes, so does the need for the money supply. The lag between the change in the inflation level and the change in the volume of the money supply now is about three months.

Against the background of these processes it is easy to assume how inflation will behave. Since a large sector of goods has an import origin, changes in the dynamics of the dollar rate with a three-month lag connected with the purchasing cycle affect changes in the inflation level. Credit rates have the same effect—the mechanism of action is the same: Expenses connected with the cost of credit are incorporated in the price of a commodity. The change in the volume of the money supply also has an effect on inflation with a three-month lag. That is, the picture of the connection of inflation and the money supply resembles a closed circle: An increase in the growth of the money supply brings about the growth of inflation, since against the background of the decline in production it cannot be otherwise and, in turn, the growth of inflation requires an increase in state expenditures, which leads to the growth of the money supply—there is a reverse motion of the "inflation-prices" pendulum.

Taking into consideration the above-stated factors, as well as the factor of seasonality, it should be expected that in summer and at the beginning of autumn inflation (the consumer price index) will be as follows: July—5 percent; August—5 or 6 percent. An acceleration of inflationary processes can be expected in September, although the possible spread of figures is quite big—from 7 to 11 percent per month.

*Edict on Financial Aid for Sakhalinmorneftegaz

954E1265B Moscow ROSSIYSKAYA GAZETA in Russian 16 Aug 95 p 6

[Edict of the President of the Russian Federation on Measures for Financial Support of the Sakhalinmorneftegaz Joint-Stock Company]

[FBIS Translated Text] In order to find additional sources for the financing of operations aimed at eliminating the consequences of the earthquake in Okhinsk Rayon of Sakhalin Oblast, I hereby decree as follows:

1. The State Customs Committee of the Russian Federation, the Ministry of Finance of the Russian Federation, and the Ministry of Fuel and Power Engineering of the Russian Federation are to ensure the crediting of funds derived from the receipt of export customs duties on oil and petroleum products, as well as on oil donated at no charge by enterprises, oil companies, and joint-stock companies for financial support of the Sakhalinmorneftegaz Joint-Stock Company, exported by Sakhalinmorneftegaz Joint-Stock Company between 1 June and 31 December 1995, for mandatory use in financing of emergency repair operations in Okhinsk Rayon of Sakhalin Oblast, to the special account being opened for Sakhalinmorneftegaz Joint-Stock Company in the bank authorized by the Ministry of Fuel and Power Engineering of the Russian Federation, upon coordination with the Ministry of Finance of the Russian Federation, for their specifically designated use in liquidating consequences of the natural disaster and for the reconstruction

of damaged sectors of the Okha-Komsomolsk-on-Amur oil pipeline.

2. Exempt Sakhalinmorneftegaz Joint-Stock Company from the mandatory sale of 50 percent of foreign currency proceeds from the export of oil and petroleum products of its own production and oil donated free of charge by enterprises, oil companies, and joint-stock companies for the financial support of Sakhalinmorneftegaz Joint-Stock Company from 1 June until 31 December 1995, with mandatory spending of the freed foreign currency funds on the financing of emergency restoration work aimed at liquidation of consequences of the earthquake in Okhinsk Rayon of Sakhalin Oblast.

3. The Ministry of Finance of the Russian Federation and the Ministry of Fuel and Power Engineering of the Russian Federation are to assume control over the specific-purpose utilization of funds indicated in this edict.

4. This edict goes into effect on the day of its signature.

[Signed] B. Yeltsin, president of the Russian Federation

[Dated] Moscow, the Kremlin, 10 August 1995, No 840

*Decree on Development of Higher School of Economics

954E1278B Moscow ROSSIYSKAYA GAZETA n Russian 17 Aug 95 p 5

[Decree No. 801 of the Government of the Russian Federation dated 9 August 1995, On Development of the Higher School of Economics]

[FBIS Translated Text] For the purpose of developing the Higher School of Economics, expansion of its possibilities in the training, retraining, and improvement of skills of specialists for government service and the scientific-pedagogical sphere, the Government of the Russian Federation decrees as follows:

1. The Ministry of Economics of the Russian Federation and the State Committee of the Russian Federation for Higher Education are to provide for the training of specialists with a higher education in the Higher School of Economics and the retraining and improvement of skills of specialists in the following areas: economics, management, sociology, state management, law.

2. Accept proposals of the Ministry of Economics of the Russian Federation and the State Committee of the Russian Federation for Higher Education concerning reorganization of the Center of Information and Social Technologies and the Scientific Research Institute of Price Formation of the Ministry of Economics of the Russian Federation by their merger with the Higher School of Economics and the formation on that basis of training and scientific-research subdivisions of the indicated school.

3. Establish a professor-instructor to student ratio at the Higher School of Economics of one instructor to four students in day courses, one instructor for six students in correspondence courses, and one instructor per two post-graduate students in resident training and correspondence courses.

4. Create the Institute for Improvement of Skills of Specialists in the Field of Economics for government service and the Institute for Retraining and Improvement of Skills of Instructors as part of the Higher School of Economics.

5. The State Committee of the Russian Federation for Management of State Property is to assign to the Higher School of Economics for operational management buildings and structures in the form of federal property, located in the city of Moscow at Slavyanskaya Sq., Bldg. 4, Constr. 2, and at Vavilov St., Bldg. 4 (four top floors).

6. Starting in 1996 the Ministry of Finance of the Russian Federation is to finance the operation of the Higher School of Economics at the expense of the federal budget additionally in the following areas:

—retraining and improvement of skills of government employees;

—retraining and improvement of skills of instructors in economic disciplines of higher and secondary educational establishments.

7. In order to ensure the training of students from various regions of the Russian Federation in the Higher School of Economics, create a training center of the Higher School of Economics on the basis of facility in Order 9759. Provide for use of the educational center of the Higher School of Economics by the Federal Center of Project Financing for the training and retraining of personnel within the framework of projects being carried out in accordance with agreements between the Russian Federation and international financial organizations. The Ministry of Economics of the Russian Federation and the Ministry of Finance of the Russian Federation are to resolve questions concerning the financing of work to complete construction of facilities of the education center of the Higher School of Economics, including the use of credit of the International Bank for Reconstruction and Development.

8. Ascertain that the Military Department of the Finance Academy of the Government of the Russian Federation also conducts military training of students of the Higher

School of Economics to include 100 people per year beginning in 1995.

The Ministry of Defense of the Russian Federation, together with the State Committee of the Russian Federation for Higher Education, is to submit to the Finance Academy of the Government of the Russian Federation and the Higher School of Economics standard requirements with regard to the training of students in the military department of the indicated academy by not later than 20 August 1995.

[Signed] V. Chernomyrdin, chairman of the Government of the Russian Federation

*Analyst Predicts Continued Falling Production for 1995

954E1243C Moscow FINANSOVYYE IZVESTIYA in Russian 27 Jul 95 p iv

[Article by Doctor of Economic Sciences Aleksandr Frenkel, head of the sector of macroeconomic strategy of the Institute of Economics of the Russian Academy of Sciences: "The Sales Crisis Knocks the Economy Down"]

[FBIS Translated Text] Serious qualitative changes occurred in Russia's economy at the end of 1993 and during 1994. Whereas earlier—in 1992 and during the first half of 1993—the decline in production was brought about by the lack of provision of enterprises with material resources, disruption of economic ties, financial difficulties caused by the payment crisis, and so forth, since the end of 1993 the factor of effective demand for output has occupied first place.

Thus, for the first time in a long period the Russian economy has faced the overproduction crisis, which is characteristic of any society where market relations predominate.

Since the end of 1993 a general decline in production has continued in all national economic sectors, the rates of which will slow down slightly during 1995. At the same time, the foreign trade turnover and a positive foreign trade balance increase steadily.

The intensification of the structural decline, especially in industry, is accompanied by a deterioration in the structure of industrial production owing to the increase in the share of raw-material sectors. The crisis in the sale of products continues.

The utilization of the production potential is at a critically low level. The degree of production concentration remains high. Four percent of the industrial enterprises with more than 1,000 employees produce almost three-fourths of the total volume of output. In-depth monopolism in all production spheres rules out the appearance of a competitive environment.

A decrease in investment activity continues and centralized investments from the federal budget have diminished sharply. A mass shutdown of enterprises is observed in industry and the payment crisis does not stop. The shortage of raw materials, fuel, energy, parts, and accessories has become aggravated, which is one of the basic reasons for the shutdown of production facilities and reduction in output.

Economic ties among enterprises and regions have virtually been ruptured and mutual economic relations with former USSR republics have become complicated.

Higher-quality imported goods have widely penetrated the domestic market, greatly displacing domestic producers.

Inflation remains at a high level—on the average, 7 to 8 percent per month.

The 1995 budget deficit is planned at less than 7 or 8 percent of the gross domestic product with a continuing growth of the money emission.

The demographic situation has worsened greatly: The number of deaths exceeds significantly the number of births.

Table 1. Macroeconomic Indicators

Indicators	In % of Previous Year				In % of 1989			
	Gross domestic product	Industrial output	Agricultural output	Capital investments	Gross domestic product	Industrial output	Agricultural output	Capital investments
1990	97.0	99.9	97.3	100.0	97.0	99.9	97.3	100.0
1991	87.5	92.0	95.0	84.5	84.9	91.9	92.4	84.5
1992	80.8	82.0	91.8	60.3	68.6	75.4	84.8	51.0
1993	68.1	83.8	96.0	88.4	60.4	61.2	84.4	45.1
1994	85.0	77.2	91.0	73.9	51.3	47.2	74.1	33.3
1995								
(Forecast)	95.0	96.0	92.0	89.0	48.7	45.3	68.2	29.6
Forecast of the Ministry of Economics								
1995	92-94	93-95	88-93	83-87				

As can be seen from Table 1, the decline in the production of the gross domestic product in 1995 will reach 5 percent as compared with 1994, or 51.3 percent as compared with 1989 (the last year when economic growth was still observed). The volume of industrial output will decrease by 4 percent as compared with 1994. As compared with 1989, in 1995 industrial production will decrease by 54.7 percent. In 1995 the volume of agricultural output will decrease by 8 percent as compared with 9 percent in 1994 and, as compared with 1989, the decrease will reach 31.8 percent. In 1995 capital investments will decrease by 11 percent as compared with 26.1 percent in 1994. In relation to 1989 the decline will reach 70.4 percent.

Table 2. Dynamics of Industrial Output in Russia in 1989-1995 in Sectors of Industry (in % of the Previous Year)

Years	1989	1990	1991	1992	1993	1994	1995 (forecast)	1995 (forecast of the Ministry of Economics)
Sectors								
Industry—								
total	101.4	99.9	92.0	82.0	83.8	77.2	96.0	93-95
including:								
Electric power engineering	101.2	102.0	100.3	95.3	94.7	91.2	96.0	96-97
Fuel industry	98.6	96.7	94.0	93.0	85.0	89.0	97.0	96-98
Ferrous metallurgy	100.2	98.1	92.6	83.6	83.4	82.6	109.0	100
Nonferrous metallurgy	101.1	97.6	94.3	74.6	81.9	90.9	99.0	93-97
Chemical and petro-chemical industry	100.6	97.8	93.7	78.3	78.5	71.1	106.0	87-91
Machine building and metalworking	101.6	101.1	90.0	85.1	84.4	61.9	91.0	90-94

Years	1989	1990	1991	1992	1993	1994	1995 (forecast)	1995 (forecast of the Ministry of Economics)
Timber, woodworking, and pulp and paper industry	101.0	98.8	91.0	85.4	81.3	68.8	89.0	92-98
Building materials industry	102.4	99.1	97.6	79.6	87.4	71.1	91.0	86-90
Light industry	102.3	99.9	91.0	70.0	76.6	52.7	71.0	65-70
Food industry	104.2	100.4	90.5	93.6	90.8	78.1	91.0	65-90

During 1994 the decline in production continued in all industrial sectors. As compared with 1993, the volume of industrial output decreased by 22.8 percent. The total decrease in output occurred in all sectors. However, as seen from Table 2, its scale varies. Whereas in electric power engineering output decreased by 8.8 percent, in the fuel industry, by 11 percent, and in nonferrous metallurgy, by 9.1 percent, in ferrous metallurgy, by 17.4 percent, in machine building and metalworking, by 38.1 percent, in the chemical and petrochemical industry, by 28.9 percent, in the building materials industry, by 28.9 percent, in the timber, woodworking, and pulp and paper industry, by 31.2 percent, in light industry, by 47.3 percent, and in the food industry, by 21.9 percent.

In 1994 there was an unfavorable structural turn in the direction of extractive sectors. The decline in production in processing sectors reached 26.3 percent annually and in extractive sectors, 11.4 percent. At the same time, the share of extractive sectors increased by 6.1 percent point as compared with 1993. Output in one out of three regions in the country decreased on a larger scale than throughout Russia's industry. In one out of seven regions the decline in production comprised 20 percent and more.

Serious difficulties with the sale of produced products, financial difficulties caused by the payment crisis, and the lack of provision of enterprises with material resources were the basic factors, which affected the decrease in output. According to an expert evaluation, more than 80 percent of the decline in production is due to these three factors.

According to the forecast, in 1995 the volume of industrial output (in comparable prices) will decrease by 4 percent as compared with 1994. The annual volume of output will be lower than in 1994 with respect to more than 70 percent of the items recorded in urgent reporting. With respect to almost one-fourth of them the decline was evaluated at 10 percent and more. This concerns primarily the output of machine building, the timber, woodworking, and pulp and paper industry, the building materials industry, and the production of many goods for the population—both food products and nonfood consumer items.

In the fuel and energy complex in 1995 the trend toward the reduction in production volumes will remain. True, there will be a slowdown in the decline in the production of electric power, oil, coal, and gas, which will make up 2, 4, 9, and 2 percent respectively. As compared with 1989, this decline will comprise 20, 46, 40, and 30 percent.

In the oil refining industry in 1995, on the whole, the decline in the production of basic oil refining products will stop. Initial oil refining will increase by 3 percent. The production of diesel fuel will grow by 4 percent. The output of motor gasoline will remain at the 1994 level. Only the production of furnace mazut will decrease by 3 percent. As compared with 1989, the production of oil products will decrease by 41, 41, 39, and 39 percent respectively.

In nonferrous metallurgy in 1995 the decline in the production of basic items will stop and some growth will begin, which will reach 9 percent as compared with 1994. At the same time, the smelting of cast iron will increase by 12 percent, of finished rolled metal products, by 9 percent, and of steel, by 6 percent. Only the output of steel pipes will decrease by 8 percent. As compared with 1989, there will be a decrease in the output of all these items by 34, 40, 44, and 74 percent respectively.

In machine building and metalworking in 1995 the decline in production will reach 9 percent. The 1994 level will not be attained, as far as the volume of output in physical terms is concerned, with respect to almost 80 percent of the items recorded in urgent statistical reporting. The continuing process of decrease in production affects many sectors. They include primarily the machine tool building and the machine tool and tool industry and machine building for light industry. At the same time, the rates of decrease in output in agricultural and transport machine building will be much lower than last year. In 1995 there will be an improvement in the state of affairs in the production of passenger cars, the output of which, as compared with 1994, will increase by 5 percent respectively. At the same time, the output of trucks and buses will decrease by 16 and 6 percent respectively.

In the chemical and petrochemical industry the decline will stop in most sectors. Moreover, growth is visible and by the end of 1995 it will reach 6 percent. At the same time, the production of synthetic ammonia, sulfuric acid, soda ash, caustic soda, and mineral fertilizers will increase. In these sectors production growth will reach 14 to 23 percent. The output of chemical fibers and threads will also increase by 17 percent. In the timber, woodworking, and pulp and paper industry in 1995, as compared with 1994, the situation with the output of most items will slightly improve, although the general decline in production, as compared with 1994, will reach 11 percent.

In the building materials industry in 1995, in connection with the growth of individual housing construction, the situation will slightly improve—the rates of decline in production will decrease. Nevertheless, the decline in production will remain significant—9 percent.

In the production of nonfood consumer items the long-term trend toward an increase in the output of most types of complex household equipment disrupted in 1993 will not be restored in 1995. There will be a decrease in the output of virtually all items. A similar picture will also be observed in light industry.

In the production of food products in 1995, as compared with 1994, the situation will hardly change. With respect to the absolute majority of items production will decrease. Vodka, salt, nonalcoholic beverages, beer, liqueur and vodka products, mineral water, and a negligible number of other food products, the output of which will increase, will constitute an exception. It should be kept in mind that it will hardly be possible to avoid a food shortage. As before, in many cities in Russia many products will be lacking periodically.

In the agrarian sector in 1994 the situation was quite complex. A total of 81.3 million tonnes of grain (in weight after processing) were gathered, which was 18 percent less than in 1993; 13.9 million tonnes of (factory) sugar beets (45.5 percent less); 2.6 million tonnes of sunflower seeds (7.1 percent less); 33.8 million tonnes of potatoes (10.3 percent less). Vegetable production decreased by 2 percent, reaching 9.6 million tonnes.

The preparation for 1995 at agricultural enterprises was not satisfactory. The sowing of winter crops and field plowing in the autumn of 1994 lagged significantly behind 1993.

At the same time, one can view the situation formed in plant growing in 1995 with great optimism, which is done in mass information media. An increase in the production of plant products, as compared with 1994, is possible. For example, in 1995 about 85 million tonnes of grain will be produced (in weight after processing), which will comprise 105 percent of the 1994 level, or 81 percent of the 1989 level; 35 million tonnes of potatoes (104 and 104 percent respectively); 15 million tonnes of sugar beets (108 and 40 percent); 2.9 million tonnes of sunflower seeds (112 and 76 percent); 9.7 million tonnes of vegetables (101 and 87 percent).

Although in 1995 the livestock and poultry population in citizens' and farmers' personal homesteads will increase slightly, it is impossible to fully compensate for the general decrease in the population. Therefore, the decline in the production of livestock products will continue. The production of meat (in carcass weight) will total only 6.5 million tonnes, which will comprise 94 percent of the 1994 level (64 percent of the 1989 level), of milk, 42 million tonnes (98 and 75 percent of the 1989 level), and of eggs, 37.2 million (99 and 76 percent of the 1989 level).

In 1995 on the basis of the tendencies formed in 1994, which will hardly change significantly, the total volume of capital investments from all financing sources will be 73.8 billion rubles (in estimated prices of 1991), or 89 percent of the expected level of investments in 1994 (30 percent of the 1989 level). As compared with 1994, construction and installation work will decrease by 11 percent (by 65 percent as compared with 1989). The share of capital investments in the construction of projects for production purposes will annually decrease by 5 percent points, comprising 51 percent.

In 1994 the rates of housing construction in the republic declined slightly. This is connected to a large extent with the sharp deterioration in financing conditions, rise in the cost of construction work, and significant growth of nonpayments on the part of customers. In 1994, in all, 38.5 million square meters, or 92.1 percent of the 1993 level (54.7 percent of the 1989 level), were built. With the population's funds and credits attracted by it the commissioning of housing increased by more than one-third.

In 1995 the total commissioning of dwelling houses at the expense of all financing sources will amount to 39.6 million square meters and will annually increase by 3 percent (it will decrease by 44 percent as compared with 1989). At the same time, housing construction by state and municipal enterprises and organizations will increase by 8 to 10 percent. The construction of the population's dwelling houses at its expense and with the help of received credits will rise sharply—by 30 to 40 percent.

Whereas 9 months in 1994 were characterized by a relatively low inflation level, a rise in consumer prices began during the fourth quarter. As a result, the consolidated consumer price index increased 3.2-fold by the end of December 1994, as compared with December 1993. During that time wholesale prices rose 3.3-fold.

In 1995 the government will not be able to constantly conduct quite a tight credit and money policy. As in 1994, unregulated crediting of the national economy and the completely unjustified granting of privileges, financial and credit assistance, and so forth to regions will continue. As a consequence, in 1995 quite high inflation rates can be forecast. According to our forecast, which takes into account real trends in the price rise, on the average, in 1995 the inflation level will reach 7 or 8 percent per month, that is, by the end of 1995 the level of consumer prices will exceed December 1994 prices 2.3- to 2.5-fold. The same also applies to wholesale prices. According to our forecast, they will rise 3- to 3.5-fold as compared with December 1994. Nor will the Chechen crisis be of the least significance in the price rise.

It is extremely complicated to forecast Russia's financial situation in 1995. Although the 1995 budget was approved in April, its realistic nature raises big doubts. It is unlikely that the government will be able to ensure and conduct quite a tight financial and credit policy, as well as fully ensure revenues into the revenue part of the budget. In all probability, however, it can be assumed that substantial expenditures on the maintenance of priority sectors of the national economy and the military-industrial complex, on the conduct of military operations in Chechnya, on the restoration of the national economy in it, and so forth will be incurred from the federal budget as before. Hence it can be concluded that, for certain, until the end of 1995 the federal budget deficit will comprise at least 8 to 10 percent of the gross domestic product.

Deterioration in the demographic situation will be observed in the social sphere. Whereas in 1994 the number of deaths exceeded the number of births by 920,200, in 1995 this difference will increase to 993,000. In 1995 the natural decrease in the population will not be covered by the migration increase of 605,000 people. Thus, by the end of 1995 the size of Russia's population will decrease approximately by 388,000 people, reaching 147.9 million.

In 1994 the process of release of workers from the sphere of material production, the administrative apparatus, and scientific, planning-design, and other organizations was not too intensive. The number of people registered in the employment service reached 1,878,900 by the end of 1994. Of them 1,636,800 people acquired the status of the unemployed. In 1995 the number of persons registered in the employment service will hardly exceed 3 to 3.2 million. Four-fifths of them will have the status of the unemployed.

In Russia during 1994 a revision of minimum amounts of wages was made twice and wages of workers in the budget sphere, as well as all types of pensions and other social payments, were indexed. At the same time, the population's money income rose more rapidly than consumer prices. On the whole, the population's real money income grew more than 1.5-fold as compared with 1993.

According to our evaluation, in 1995 the amount of the population's money income will reach 790 to 800 trillion rubles. At the same time, the level of the population's expenditures will total 770 to 780 trillion rubles, that is, the excess of income over expenditure will be about 20 trillion rubles. However, the picture will be different than in 1994. Money income will grow much more slowly than inflation. As a consequence, in 1995 the population's real money income will decrease by 26 to 27 percent as compared with 1994.

In 1994 Russia's foreign trade turnover with countries of the far abroad increased by 13 percent, reaching 87.1 billion U.S. dollars. Russia's export to countries of the far abroad totaled 50.1 billion U.S. dollars, increasing by 13 percent as compared with 1993. In the total export volume energy carriers accounted for 46 percent and machinery, equipment, and transport facilities, 5.3 percent. In 1994 Russia's import volume totaled 37 billion U.S. dollars, increasing by 13 percent as compared with 1993. In 1994 Russia's balance of foreign trade was positive, totaling 13.1 billion U.S. dollars.

According to the forecast, in 1995 the export volume will total 56 billion dollars (11.2 percent of the 1994 level). As before, the export of energy carriers will predominate in the total export volume. Oil export will total 105 to 110 million tonnes and, as compared with 1994, will increase by approximately 20 percent. The annual export of oil products will total approximately 40 million tonnes (will increase by 3 percent). The annual sale of gas will reach 110 to 115 billion cubic meters, on the average, increasing by 3 percent. At the same time, the export of machinery and equipment will decrease by 8 percent during the year. We forecast the import volume in the amount of 40 billion dollars (108 percent of the 1994 level). The import of machinery and equipment will occupy the biggest proportion in the import volume. Food import, with the exception of grain and sugar, will increase. In a year the overall balance will be positive, amounting to 16 billion dollars, and will comprise 122 percent in relation to 1994.

*'Russodollar' Phenomenon, Labelled as 'Currency of the Poor'

954E1243A Moscow LESNAYA GAZETA in Russian 1 Aug 95 p 1

[Article by Valeriy Begishev: "Riddles of the 'Russodollar'"]

[FBIS Translated Text] During the times when Russian, more precisely, Union newspapers devoted much more space to international problems than now, thereby diverting the reader's attention from domestic problems that were difficult to discuss, quite a great deal was written about the "Eurodollar" and its corrupting effect on the economy of countries, which had the misfortune of letting this monster in. Who could have thought that at the turning point of history this beast, its Russian variety, also awaits us?

Now it is possible to talk boldly about the appearance of the "Russodollar," which at first appeared (or was represented, especially by the patriotic press) as a conqueror and now, through the efforts of the government and the Central Bank, is driven into the rate "corridor," acquiring an ever more pitiful look every day. It no longer goes, but crawls, through it, clinging close to the "floor" and being removed from it by only a little more than 100 points, which it can fully exhaust during the coming week. Then the Central Bank will have to keep its word, buying out all the currency dumped by commercial banks, enterprises, and the population. There is fear that soon, instead of "hardening" rubles, some treasury bills not very suitable for meeting direct financial needs will begin to be offered to sellers. The debts of state television companies to communications workers were "paid" with them.

Initiators of this operation talk haughtily about the steady strengthening of the national currency, representing it as a serious achievement on the path of stabilization. Hints appear about the possibility of continuation of the same policy after 1 October so that, finally, the dollar may achieve its parity value, that is, so that for the rubles given for it it would be possible to buy in Russia approximately as many goods and services as for the "buck" itself, or amounts equivalent to it in other hard currencies in the West. The State Committee for Statistics has already calculated the figure: about 2,700 rubles.

If this is done, the real value of the "Russodollar," God willing, will be one-fourth of that of the American dollar. The point is that statisticians operate with numbers, but there is also such a concept as use value. It depends to a large extent on the quality of what is bought. What is offered for rubles to us?

I have already had the occasion to write that two clearly delimited spheres of consumption have been formed in the country: for the very rich, whose capital is primarily speculative and whose contacts often extend to the criminal world, which threatens both the well-being and the life of the nouveaux rich, and for the "plebes" who live on wages and comparatively modest extra earnings. The former do not count money—one must grab as long as one can. They demand and get what they want "at a European level" (even the appropriate terminology appears; for example, "Eurorepairs" of apartments), but at much higher prices than in Europe. However, the latter... The latter get either domestic products, the quality of which with rare exceptions remains at the "Soviet" level, prices being approximately one-half of Western prices (this also applies to most services), or imports "for the poor," a considerable part of which arrives from developing countries, or represents the lowest-grade part of Western products. All these "Sonya" margarines, sausages red from nitrites, and murky lemonades are fruits of the efforts of many of our businessmen, who try "to buy five-kopeck coins for half a kopeck." If I, having paid a sum equivalent to 1 dollar, receive a bottle of such lemonade, the fact that in America the same capacity of Coca-Cola will cost twice as much is not much consolation for me. Because no one there will give even 10 cents for my cheap soft drink.

And so, what can the "Russodollar" become in the near future? I am afraid, a distinctive "currency of the poor."

*Consumers' Market Overview, Future Prognosis

954E1258A Moscow EKONOMIKA I ZHIZN in Russian Aug 95 No 31, pp 1-2

[Article by S. Karnaukhov, candidate of economic sciences and general director of Institute of Wholesale Market Conditions and Commodity Flow Patterns, and I. Pikan, candidate of economic sciences and institute division head: "Russia's Consumer Market: Anticipation of Shortages?"]

[FBIS Translated Text] **Current economic policy can be viewed from different standpoints: federal budget execution, progress in financial stabilization, and investment activity. The overwhelming majority of Russians, however, judge the effectiveness of reforms by the state of the country's consumer market and by their own ability to "cope" with it.**

Emotional, "sensory" elements frequently prevail in assessments of the state of the consumer market. The general public and the scientific community still show no inclination to take an objective approach to the effects of reform. Over a period of many years our citizens developed a regrettably lasting immunity to various types of statistics and computations. By tradition, the opinion of the "man in charge" or another "authority" in the state, government, institution, or party has been the deciding "fact and argument" in the interpretation of any new development.... Nevertheless, we will try to use an analysis of the main macroeconomic indicators of the Russian consumer market to ascertain the distinctive features of its present state and to foresee what the Russians can expect in the near future.

Public Purchasing Power

The situation in the second quarter of 1995 was influenced by the more vigorous attempts of powerful economic structures to restore (and raise) the earlier level of control in the consumer market. In all probability, the main elements of this policy—the gradual (in contrast to 1993-1994) reduction of the rate of inflation, stricter control over income, and the restructuring (by means of de-dollarization) of private savings—will continue to be pursued in the second half of this year.

The changes in monetary income have been quite contradictory. On the one hand, after an abrupt decline in January, the nominal level of monetary income and the level of real disposable income rose slightly. On the other, the decline of private income in January 1995 was so intense that its steady monthly growth could not improve the situation. Furthermore, in connection with the wider gap between real current income and the indicator for the corresponding period in 1994 (around 4 percent in the first quarter and 7 percent in the first half of the year), we can confirm the actual reduction of real private income. Expenditures on services rose again and were equivalent to more than 20 percent of total retail commodity turnover in May-June.

There was a rise in consumer confidence in the second quarter (mainly in May-June), however. Retail commodity turnover rose from 36 trillion rubles in April to 43 trillion in May (an increase of 9 percent in comparable prices). The proportion accounted for by non-food items in commodity turnover increased slightly.

The apparent contradiction (the higher level of consumer confidence accompanied by an increase in proportional expenditures on paid services and the reduction, however slight, of income) was due to changes in the scales and structure of private savings in the second quarter of the year. The main reason for these "inconsistencies" is well-known—the abrupt rise in the exchange rate of the ruble and the effective devaluation of the American dollar in the domestic market after it had served as a reliable protector of the capital of Russian citizens since 1992. During the second quarter, for example, the actual purchasing power of the U.S. dollar decreased by 33 percent in Russia. As a result, part of the foreign currency acquired earlier was exchanged for rubles, and these were circulated in the consumer market. There was no massive "dumping" of foreign currency in the second quarter, however. According to the data of the RF Central Bank, the population continued to buy more foreign currency than it exchanged. There were virtually no other effective means of protecting savings. Nevertheless, the population was much less likely to acquire foreign currency, and this restructured monthly savings, perceptibly reducing the proportional funds in foreign currency and simultaneously increasing the amount of cash in rubles.

As a result, the total savings of the population today are estimated at around 27-38 trillion rubles, equivalent to around 60 percent of monthly retail commodity turnover. At the beginning of the year the disposable cash of the population was equivalent to less than 50 percent of monthly turnover.

Savings in deposit accounts and securities now amount to around 38-40 trillion rubles (around 30 trillion at the end of March). Savings in foreign currency total around 23-25 billion U.S. dollars (an increase of around 2 billion in the second quarter, while the indicator for January-March exceeded 5 billion dollars). The higher percentage of cash in rubles is certain to increase the demand for consumer goods in the second half of 1995.

Therefore, the savings of the average Russian amounted to around 200,000 rubles and 170 U.S. dollars in cash and 270,000 rubles in savings accounts and securities.

Obviously, these resources are not distributed equally among various categories of citizens. The scales and dynamics of the social stratification of the Russians can be judged from the table.

Distribution of RF Population in Terms of Per Capita Income

Per capita monthly income equivalent to:	1993		1994		1st quarter 95		1st half of 95	
	thousands of people	%	thousands	%	thousands	%	thousands	%
1. Less than cost of one set of 19 dietary staples*	13,634	9.3	18,834	12.7	26,300	17.7	24,200	16.3
2. Cost of 1-2 sets	48,634	33.1	40,487	27.3	46,300	31.2	48,700	32.8
3. Cost of 2-4 sets	59,930	40.8	50,424	34.0	47,600	32.1	50,300	33.9
4. Cost of 4-6 sets	17,622	12.0	20,763	14.0	16,200	11.0	15,800	10.7
5. Cost of 6-9 sets	5,976	4.1	11,568	7.8	7,200	4.9	7,000	4.8
6. More than cost of nine sets	981	0.7	6,229	4.2	4,600	3.1	2,200	1.5

* The set of 19 dietary staples constitutes the basis (over 80 percent) of the minimum subsistence level for a single individual. The set is calculated according to the standard nutritional requirements of adult males.

Groups 1 and 2 can be categorized as the lower class of our population in terms of income, groups 3 and 4 are the middle class, and groups 5 and 6 are the upper class.

There are two significant developments here. In the first half of the year the percentage of people with the minimum income level (the first population group) decreased slightly. In view of the continued growth of the relative size of the largest population groups (the second and third) and the traditional summer reduction of proportional expenditures on food in the family budget, we can anticipate a somewhat higher demand in the third quarter for inexpensive consumer goods (electrical appliances, housewares, and clothing) produced in our country or in the CIS countries and for some foods with a long shelf life (sugar, flour, and cereals).

The percentage of individuals with a higher income (the fourth and fifth groups, and particularly the sixth) is decreasing gradually. Whereas these groups combined represented 26 percent of the total population in 1994, the figure in the first quarter of this year was 19 percent, and the figure for the whole first half of the year was 17 percent. This will limit sales of expensive imported goods (which were supposed to cover shortages in the market in big cities) and will keep domestic enterprises from developing the production of more modern consumer goods.

Changes in migration patterns now have a significant effect on the structure of consumer demand. Last year 1.15 million people arrived in Russia and 340,000 left the country. According to the estimates of the State Committee of the Russian Federation for Statistics and the Russian Federal Migration Service, this tendency continued in the first half of 1995. Furthermore, the overwhelming majority of migrants arriving in Russia from the Central Asian republics (Kazakhstan, Uzbekistan, Kyrgyzstan, and Tajikistan) and from Ukraine and Belarus swelled the ranks of low-income strata. Most of the emigrants (95 percent move to Germany, Israel, and the United States), on the other hand, belonged to the highest-income strata.

In this way, the general patterns of migration perpetuate the relatively high demand for obsolete goods and do not promote the growth of mass consumer demand for products of better quality than most of the goods in the market today. The highest rates of population growth as a result of migration have been recorded in Rostov, Samara, Volgograd, Voronezh, Chelyabinsk, and Saratov oblasts (listed in descending order). Incidentally, this information could be used by wholesale suppliers for the organization of shipments of inexpensive building materials, refrigerators, television sets, and washing machines to those regions.

Forecast

We feel it is most likely that personal income will be "frozen" at its present level in the second half of the year. This will be done for the purpose of curbing inflation and pursuing the policy of the "de-dollarization" of the economy more successfully.

The degree of strict control over personal income will depend largely on two factors: the upcoming election campaign and the rate of "withdrawal" of dollars circulated in the market by the population and by banks and enterprises. The effects of these factors should increase the demand for inexpensive non-food consumer goods and for foods with a long shelf life.

Supply in the Consumer Market

Despite the existence of the main foods and non-food items in retail trade, the relative supply in the Russian consumer market is disturbing. The fact is that the constant reduction of the output of consumer goods (see diagram [not reproduced; information presented in tabular form]) is not balanced completely by increased imports. In the first half of the year the output of consumer goods (excluding alcoholic beverages) was 14 percent smaller than the output during the same period last year. Imports of consumer goods, however, increased by only 6-8 percent. Meanwhile, there was virtually no change in the volume of imports of non-food items. Furthermore, these percentages can be misleading because the proportional amount of domestic products sold in the domestic market today is estimated at around 60 percent of the total supply.

Dynamics of Consumer Goods Production (1993=100%)

Categories	1994	1995
Total	74.2	62.3
Foods	81.3	71.5
Alcoholic beverages	78.5	94.2
Non-food items (excluding products of light industry)	70.7	62.2
Products of light industry	56.3	36.6

Meanwhile, imports of relatively expensive goods from the countries of the far abroad have displayed a higher rate of growth, while deliveries of goods from countries of the near abroad that are affordable to most of the Russians have stayed at virtually the same level as last year.

As a result, the steady growth of the supply of consumer goods is primarily a result of imports, and the demand for these is extremely limited.

Furthermore, the supply of the main consumer goods in stores decreased by 2 percent for the first time in all the years of reform in May-June 1995, including a 3-percent decrease in the supply of foodstuffs, whereas there was no change in the supply of non-food items. The most acute shortages might occur in several Russian regions where the level of personal income is relatively low and where sales of imported goods are complicated by high shipping costs.

The supply of Russian goods in some sectors of the consumer market did not display any significant changes in comparison with the first quarter of this year. The most dramatic decrease was still being recorded in the supply of non-food items (16 percent below the figure for the previous year). This decline is largely a result of the catastrophic state of light industry. Whereas some plants producing complex housewares, electrical appliances, detergents, and other consumer goods have accomplished the technological restructuring of production, these are literally isolated cases in light industry.

The supply of food available to the population, particularly in some parts of the country, is a matter of exceptional concern. The situation is growing increasingly critical in connection with the constant reduction of domestic agricultural output.

Only the producers of alcoholic beverages are confidently increasing their production volume and thereby re-establishing the status quo in the Russian market. The output of alcoholic products in the first half of 1995 was 25 percent greater than the output for the same period last year (imports decreased by around 15 percent).

Forecast

We feel that the supply of consumer goods in the Russian market in the coming six months will be influenced primarily by the trends discussed above.

The institution of new import duties will be offset completely by the healthier exchange rate of the ruble and will not have a perceptible effect on the amounts of consumer goods imported from countries of the far and near abroad.

In all probability, just as in 1993 and 1994, food prices will not rise as quickly as the prices of non-food items in the summer months. In fall and winter of this year, however, food prices can be expected to rise more quickly in the country's consumer market.

To a considerable extent, this will be a result of the stricter customs "purges" of imported alcoholic beverages and the more intense struggle against domestic swindlers. The rise in the prices of alcoholic beverages in the second quarter exceeded the rise in the summary index of consumer prices. We feel that the cumulative gap between the rate of increase in the prices of alcoholic products and the prices of other consumer goods could result in the continuation of the higher rate of increase in alcoholic beverage prices in the third and fourth quarters of 1995, although at a lesser rate than in the second quarter (see graph [not reproduced; information presented in tabular form]).

Quarterly Indicators of Price Increases for Consumer Goods and Services in Percentage of 1993 Figures

Indices	I 94	II 94	III 94	IV 94	I 95	II 95	III 95	IV 95
Summary index of consumer prices	100	100	100	300	450	500	600	800
Food price index	100	100	100	400	500	600	750	900
Alcoholic beverage price index	100	100	100	300	350	450	500	600
Price index for non-food items	100	100	100	300	350	450	500	600
Service rate index	100	350	500	600	1000	1350	1700	2000

Need for Wholesale Link; Some Conclusions and Proposals

The insufficient attention paid to problems in the structure of the domestic market, the underestimation of the role of trade, especially wholesale trade, and the belief that the wholesaler is an unnecessary extra link between the producer and the final consumer disrupted the earlier group of commodity flow patterns and led to the regionalization of local consumer markets and the continued criminalization of retail trade.

The sphere of activity of wholesalers in the consumer market is still being reduced although many administrators (and owners) of trade enterprises are aware of the economic inconvenience and inadvisability of direct ties with producers in several areas.

Nevertheless, whereas proportional deliveries of goods to the retail network through commercial and wholesale firms represented 47 percent of the total in 1993, the figure is around 35 percent in 1995. The reserve stocks kept on the premises of retail trade enterprises still constitute the overwhelming majority of commodity stocks. They now represent around 80 percent of the total (77 percent at the beginning of 1994 and 75 percent in 1993).

The value of commodity stocks in wholesale trade and industry is decreasing at a more rapid rate. The decrease since the end of 1993 is 19 percent in comparable prices, whereas the figure in retail trade is only 13 percent.

The absence of a modern consumer market infrastructure means that the administrators of trade enterprises have to obtain the necessary resources independently in most cases. The establishment of direct ties, however, is not always economically feasible or advisable, especially for small and medium-sized trade enterprises.

As a result of the underestimation of the role of wholesale trade in supplying the Russian consumer with the necessary goods, the campaign to deliver goods to regions of the Far North is on the verge of failure again, and "shuttle trade," an absolutely ineffective practice in civilized countries, is still flourishing there, and the scales of interregional trade are being reduced. The attempts to categorize the trade in consumer goods as a "small business" concern will only compound these problems. In our opinion, in this case the problems of "small business" can only be solved after the resolution of the problems of "big business"—i.e., after the establishment of organizations engaged in wholesale trade on the national scale under the new conditions of economic management.

The RF Ministry of Economics recently drafted a plan for the development of commercial markets in Russia, and we can only hope that it will serve as an organizational and procedural guide for administrative agencies on all levels, the producers of goods, and trade organizations. It assigns greater significance to the development of a modern infrastructure for the distribution of goods. We feel that it warrants the status of a federal program. The distinctive features of the main markets, especially the food market, should be taken into account during the drafting and implementation of this program.

The methods of procurement—i.e., competitive purchasing in open trading sessions—should be instituted in the practice of budget-financed wholesale food purchases. The taxpayer funds earmarked for the accumulation of federal and regional supplies and reserves, the needs of the budget sphere, clean-up operations following natural disasters, and the social support of certain categories of citizens could be used much more efficiently through competitive bidding than in the present system of commodity turnover based on direct trade negotiations. We feel that the government should pass a resolution to confirm the mandatory nature of competitive bidding for this purpose, and that this will also have colossal sociopolitical implications.

An analysis of foreign experience provides unequivocal arguments in favor of the establishment of organized wholesale food markets on the regional level. This is already being done in Ryazan, Murmansk, and Volgograd. A federal program has been drafted for the development of these markets. In June the Moscow Government adopted an extensive program for the establishment of a joint-stock company in the capital, the "Moscow Wholesale Food Network," with 51 percent of the capital to be reserved as municipal property. The plan calls for the establishment of around 10 large wholesale markets in Moscow, which will create favorable conditions for the attraction of the products of foreign producers, and primarily Russian producers, to the capital.

In contrast to the small-scale wholesale and retail food markets requiring payment in cash for the goods that are so popular and so necessary to the population today, the organized markets will provide a fundamental solution to the problem of the municipal food supply, lower the overhead cost of trade, and establish strict control over the safety and quality of foods.

The Moscow Department of Food Resources is now considering the bids of potential investors in this project. Scientific centers are assisting in the development of technology and in economic feasibility studies for these organized food markets. It is obvious that the Moscow experiment will be of national importance.

*Conference Discusses Future of BAM

954F3156A Moscow SEGODNYA in Russian 11 Aug 95 p 2

[Article by O. Kryuchek: "BAM Asks for Money"]

[FBIS Translated Text] **Far East Leadership Finds New Use for Construction Project of the Century**

The federal debt for work done on facilities of the Baykal-Amur Trunk Line as of today amounts to 700 billion rubles [R]. That figure was cited at the second conference of authorities of Transbaykal and Far East territories conducted in Tynda, where problems concerning development of the railroad were discussed. This time the conference was attended by representatives of ministries of railways, economics, finance, construction, and the State Committee on the Administration of State Property. Arrival of Oleg Soskovets, the first vice premier, was expected. Because of a very busy schedule, however, he was unable to attend.

As reported to a SEGODNYA correspondent at the administration of Amur Oblast, regional leaders have once again named the troubles faced by BAM, this time in the presence of representatives of the federal government, including: an increase in social problems, a decline in the volume of shipping, and, as a consequence, a large-scale egress of specialists and other personnel servicing the line. In addition to that, probably for the first time in the entire history of construction and existence of BAM, words were heard to the effect that one of the principal reasons for the building of the railway, which was direct access to low-cost Far East coal, proved to be unfounded inasmuch as the coal turned out to be of very low quality. Participants of the conference were forced to hastily formulate a new super-task in order to revive the construction project of the century.

Regional leaders, in particular, proposed to Moscow a more active utilization of the very rich natural resources of territories adjoining the railway line. In the end participants reached the conclusion regarding a need to create a state investment fund with a working name of BAM-invest. At the present moment the group that was formed at the conference is preparing an appropriate package of documents for the Russian Government. It is expected that every territory through which BAM passes, as well as the federal leadership, will regularly deduct money into that fund, while in Moscow a system will be created granting special terms to attract foreign firms for participation in the development of deposits of minerals as well as precious metals and stones.

*Development of New Strategic Resources Urged

954E1288A Moscow KOMMERSANT-DAILY in Russian 8 Aug 95 p 2

[Article by Andrey Serov, under rubric "The State Forms Strategic Reserves": "Geological 'Drang nach Osten'"]

[FBIS Translated Text] **It is no secret to anyone that Russia's economy is being kept afloat largely thanks to the export stream of crude oil and other types of mineral raw materials of which the country has rich reserves. Petrodollars used to feed the Soviet regime, and currency continues to be acutely needed to form the state budget. But since the times of the oil boom of the 1970's, when tremendous deposits were discovered in West Siberia, a very large amount of the "black gold" has already leaked away. It is necessary to drill deeper and deeper, but less and less high-grade oil is being produced. At the present time the RF Committee on Geology and the Use of Mineral Resources has posed to the government the question of prospecting and developing the as yet unassimilated deposits of strategic types of mineral raw materials (STMRM) [in Cyrillic, SVMS]. It is proposed, for example, that oil be sought toward the east of the present areas of extraction. But in order to acquire raw material reserves tomorrow, it is necessary today for the state to expend money to search for them, and also to guarantee favorable conditions for investments in the development of the deposits to be discovered.**

In the course of Viktor Chernomyrdin's recent trip to Tyumen, he was convinced by his very own eyes of the reality of the problems of oil production in West Siberia. There it was reported to the premier that many oil fields are operating on the brink of profitability. Under that impression, the prime minister promised even to lower the excise tax on crude oil in order to support the oil producers who have been experiencing difficulties. In the evaluation of the Committee on Geology, at the existing oil fields highly effective production can continue for about 5-7 more years. If during that time no new deposits are prepared, the consequences for the economy can be the most deplorable ones. Geologists mention East Siberia and the shelves of Russia's Far East shores as potential areas of new oil-prospecting intervention.

In addition to the petroleum reserve, it is necessary to create a reserve of a number of other strategic types of raw materials (see table). In those instances when this can be done the same way as with petroleum, that is, by developing new deposits, there arises a completely material question — the question of preferential conditions for the investors and those who will carry out that development. The Committee on Geology, as Levon Oganesyan, chief of the committee's Analysis Department, reported to a KOMMERSANT-DAILY correspondent, is attempting to achieve the legislative consolidation of a system of preferential measures. In the geological department it is felt that it is also necessary for the highest executive and legislative authorities to establish a mandatory and permanently renewable list of STMRM. It is necessary by government decree to establish the level at which it is necessary to maintain the reserves. And if it is necessary to prospect and prepare new deposits for the purpose of creating reserves for most of the types of mineral raw materials, the committee is counting of achieving the allocation to itself of a separate line in the 1996 budget for additional funds (approximately one hundred billion rubles).

In order to accumulate those STMRM of which there are no reserves in Russia, but which exist in the CIS countries (manganese in Ukraine; chrome and uranium in Kazakhstan), the committee proposes creating joint financial-industrial groups. For certain scarce types of raw materials, it is necessary to conclude long-term purchase contracts without waiting for their prices in the world market to rise.

The question of measures to provide Russia's industry with STMRM was put on the agenda of the most recent session of the Commission for Operational Questions, which was held under the chairmanship of First Vice-Premier Oleg Soskovets. No final decision with regard to this question has been made so far. But if the committee's proposals pass and are legislatively formalized, one should expect an increase in the investment activity in the sphere of the geological prospecting and assimilation of new deposits, primarily of petroleum. The creation of favorable conditions for investments in the development of new deposits of STMRM (for example, preferential taxation) could probably provide, in the foreseeable future, a real result in the form of tax proceeds from their extraction and sale. Moreover, if during that time Russian industry actually begins to revive, the increase in production will be impossible without additional raw-material resources. And if the government is seriously counting on remaining at the helm for the next parliamentary and presidential term, it apparently should be concerned right now about closing the future raw-materials hole.

Total Potential Value of Russia's Mineral Reserves ($28560 billion)

	percent	billion dollars
1. Gas	32.2	9190
2. Oil and condensate	15.7	4481
3. Ferrous metals	6.8	1962
4, Nonferrous and rare metals	6.3	1807
5. Precious metals and diamonds	1	272
6. Other minerals	14.7	4193
7. Uranium	0.01	4
8. Coal and shale	23.3	6651

Source: RF Committee on Geology

Classification of strategic types of mineral raw materials on the basis of their resource potentials (from an informational memorandum for the session of the government's Commission on Operational Questions

Group 1	STMRM for which industry's provision rate is high: extracting enterprises for a prolonged period of time have been provided with high-grade reserves that are competitive in the world market; a fund of prepared reserve deposits exist; forecast potential is reliable	Gas, diamonds, nickel, platinum, beryllium
Group 2	STMRM for which the existing level of highly effective extraction can be guaranteed only for the immediate future (5-7 years); reserve of prepared sites exists, the founding of which requires major investments; forecast potential is good or satisfactory	Petroleum, gold, copper, lead, zinc, antimony, niobium, germanium, rhenium, lithium, rare earths
Group 3	STMRM for which there are no reserves of high-grade competitive ores; need for the application of complicated ore-concentration technologies that have been insufficiently developed on an industrial scale; some reserve deposits with good or satisfactory raw-materials quality have been prepared, but their assimilation requires investments; forecast potential is satisfactory or limited; partial import of raw materials is necessary	Bauxites, molybdenum, tungsten, titanium, zirconium
Group 4	STMRM that are in critically short supply in Russia: reserves of them are extremely limited or practically nonexistent; there are no major competitive deposits that have been prepared for assimilation; the implementation of the forecast potential requires the carrying out of considerable volumes of geological prospecting operations with the possibility of resolving the problems of providing sufficient raw materials only after 5-12 years; long-term import agreements are needed	Uranium, manganese, chrome, quartz raw materials

*Anti-Dumping Sanctions Against Importers Proposed

954E1289A Moscow KOMMERSANT-DAILY in Russian 10 Aug 95 pp 1, 2

[Article by Vadim Bardin, Aleksandr Volynets and Konstantin Levin: "Moscow Plays the 'WTO Protection' Card"]

[FBIS Translated Text] **For the first time, Russia will be able to protect its own market by imposing anti-dumping sanctions against its own trading partners. Deputy Prime Minister and Minister of VES [Foreign Economic Relations] Oleg Davydov has approved the "Interim Procedure for Conducting Investigations for the Purpose of Applying Protective Measures in Relation to Goods Imported into the RF [Russian Federation] Customs Region." This document conforms to VTO [World Trade Organization — WTO] principles and permits imposing not only anti-dumping duties, but also import quotas, thereby protecting national producers. Meanwhile, the renaissance of regulatory administrative measures may well extend beyond the bounds of what is permitted by the WTO. The additional collision lies in the fact that the Russian government is also extending the "Interim Procedure" to the region of the CIS countries' customs union, although, so far, Minsk's reaction to Moscow's development of protective procedures is not clear.**

Joining the WTO Is Turning Out Badly for Russian Importers

Although the basic idea behind Russia joining the WTO is to extend to exporters the protection standards adopted in this organization, importers are the first ones becoming aware of the new realities of foreign economic regulation. The approval of the procedure for conducting investigations in dumping instances and for imposing protective measures has given Russian producers an additional legal basis for upholding their own interests at the governmental level. As is well known, the increase effective as of 1 July in import duties, and first and foremost, on foodstuffs, was implemented with the active assistance of representatives of the managerial corps. The agrarians and the alcoholic beverage producers are still the most active proponents of a permanent increase in import duties. Now, the range of possibilities for raising prices for imported goods has been expanded significantly: in addition to the usual duties, the NDS [Value-Added Tax — VAT] and the excise taxes, quantitative limitations may be applied in the form of import quotas, along with anti-dumping and compensatory duties.

In accordance with the "Interim Procedure," the reasons, based on which anti-dumping measures may be imposed, are quite diverse. They include: instances of the infliction of substantial material damage on domestic production sectors or threats to inflict such damage in connection with dumping-related understating of prices, the use of subsidies during production and exporting and an increased volume of importing into Russia of import commodities. The government will make a decision about imposing protective measures on the basis of the proposals of the RF Government Commission on Protective Measures in Foreign Trade, which examines the corresponding statements. The filer may be any Russian producer, producer associations or other organizations whose interests are being damaged by the importing of goods at dumping-level prices. The protective measures commission is also empowered to examine the statements of foreign exporters whose interests have been damaged by the imposition of protective measures. It is quite likely that the executive organs will not be able to avoid the temptation to make accelerated use of the new opportunities for administrative regulation of the importing volumes and the prices for imported goods. This may cause an adverse reaction on the part of the WTO and thereby complicate the procedure for Russia's entry into this organization. Apparently, this is why the document on anti-dumping measures has been called an interim one — so that it would be possible to insert adjustments into it on the fly.

The Customs Union Will Undergo Additional Testing

As paradoxical as it may be, it has been specified in the interim protective measures procedure that the imposition of anti-dumping quotas or duties, as well as other anti-dumping measures, shall be effective not only in Russia, but also in the RF's common customs domain with a country (countries), with which a customs union has been formed. There has not yet been an official reaction from Minsk, but, even now, it may be assumed that it will be sharply negative.

Even after the introduction on 1 July of a common customs barrier in the customs region of Russia and Belarus, the republic's leadership repeatedly expressed dissatisfaction with the high import duties, in particular, those on foodstuffs. Simultaneously with this, instances were recorded of passenger cars being imported through Belarussian customs without the VAT and excise taxes being levied. Currently, the Belarussian government's representatives are seeking for the republic special (lower) duties on individual goods. Now, however, with the interim procedure's approval, additional restrictions on importing may be established for Minsk. This will obviously not please Belarussian importers and will evoke protests from Minsk's authorities. It must be acknowledged that it could not be otherwise, when Moscow decides for Minsk. Both parties' interests would be preserved to a greater extent, if a decision which affects several countries were made not by the Russian prime minister, but rather, by a supranational organ.

In the case of Russia and Belarus, this may be the Inter-State Economic Committee. In addition, Moscow's attempt to act as the sole authority over import commodities will clearly cause Alma-Ata and Tashkent to pay close attention when considering the advisability of joining the CIS' customs union.

The Long-Suffering Law

Strictly speaking, there are two legal bases for Russia's use of the new arsenal of protective measures: the neglected procedure for joining the WTO and also the Law on State Regulation of Foreign Trade Activities, which has been based on the use of this organization's set of instruments. Meanwhile, the law has been rejected for a second time by the president.

At first glance, nothing foretold of such a turn of events. The conciliation commission had completed its work without any appreciable collisions or blank spots. But the president stuck to his opinion, previously expressed in May when the first veto emerged. In both the Duma and in the MVES [Ministry of Foreign Economic Relations] (and this department is more interested than others in the passage of a law which delivers into its hands new regulatory opportunities), people could only guess as to the reasons for the president's dissatisfaction.

As KOMMERSANT-DAILY's correspondents managed to find out, the formal reason for the presidential veto, put forward by the GPU [State Legal Administration] of the president's administration, comes down to the fact that the law's second chapter is devoted to the division of powers in the foreign economic area between the federation and its components, while only the federal constitutional law, which stipulates a different passage procedure (no less than two-thirds of the Duma's deputies and three-fourths of the Federation Council's deputies), can separate these powers. If the drafters want to observe the law, then the GPU suggests removing the second chapter. It is typical that these objections were expressed at the very last moment; prior to this, its second chapter had not evoked such serious objections from anyone. There are grounds for believing that, in fact, there are totally different reasons for the objections.

For the first time, the president did not agree with a law, seeing in it, in particular, an infringement of his rights with respect to the regulation of arms exporting. In the law's new version, the Duma agreed with the president — in Article 16, it states unambiguously: "the catalog of arms and military equipment which fall under export control... shall be determined by the lists and schedules established by presidential edicts." But, apparently, the weapons exporters' dissatisfaction with the law has remained. This time, Article 12 was attacked. It states, in point of fact, that the Ministry of Foreign Economic Relations "shall be the sole organ of state authority, which shall issue licenses for the conducting of exporting and importing transactions, with respect to which quantitative restrictions have been established or an authorization procedure has been introduced." The indivisibility of a "licensing ministry" is one of the WTO's requirements. Meanwhile, Rosvooruzheniye [Russian arms], for example, currently receives export licenses from the State Committee on Military and Technical Cooperation, to which the corresponding subdivision had even migrated from the Ministry of Foreign Economic Relations. As a result, it is significantly simpler for Aleksandr Kotelkin, Rosvooruzheniye's general manager, to reach an agreement with the State Committee on Military and Technical Cooperation, than with the current Ministry of Foreign Economic Relations. In connection with this, it is perfectly feasible that Kotelkin was able to bring his complaint to the president. The evidence in favor of this scenario is his well-known access to the cabinet, Aleksandra Korzhakova.

How And For What Russia's Exporters Are Being Mistreated

Russian Goods Against Which Measures To Protect National Markets Are Being Applied or Are About To Be Imposed	Foreign Economic Activity Commodity List Codes	Administrative Procedures	Countries Applying Protective Measures
Carbamide	310210	Proposal to impose duties in the form of the difference between the EU free-at-border commodity price prior to payment of customs duty and the minimum price of 115 ECU per metric ton is being examined	European Union
Carbamide	310210	Anti-dumping duty ranging from 41.56 percent to 57.23 percent established (preliminary decision)	Mexico
Carbamide	310210	Anti-dumping duty of 67.3 percent imposed	USA
Potash	310420	Effective as of 21 March 1994, an anti-dumping duty representing the difference between the established minimum price and the commodity price or a fixed amount in ECUs per metric ton (early review of procedure is possible)	European Union
Pig Iron	720140	Anti-dumping duty imposed on 15 July 1994 in the form of the difference in the commodity price and the minimum price of 149 ECU per metric ton	European Union
Ferrous Metal Rolled Stock		Import quota imposed. Quota for 1995 amounts to 307,686,000 metric tons. In addition, in the area of the former GDR, it is 500,000 metric tons	European Union
Ferrosilicon	720221	Duty of 74 percent imposed	European Union

Russian Goods Against Which Measures To Protect National Markets Are Being Applied or Are About To Be Imposed	Foreign Economic Activity Commodity List Codes	Administrative Procedures	Countries Applying Protective Measures
Isobutanol		Anti-dumping duty of 102 ECU per metric ton imposed, effective as of 23 March 1994	European Union
Ammonium Nitrate	31023090 and 31024090	Anti-dumping procedure started on 9 June 1994. Threshold price of 100.3 ECU per metric ton is being proposed, with sales at a price below the threshold — a variable duty	European Union
Silicon Carbide		Anti-dumping duty of 23.3 percent imposed as of 12 April 1994, with the exception of shipments within the framework of the obligations of VO Stankoimport [All-Russia Association Machine Tool Importing] under a guarantee of the Russian Ministry of Foreign Economic Relations	European Union
Ferrosilicomanganese	720230000	Anti-dumping procedure started on 8 April 1994	European Union
Ferrosilocomanganese	72023000	Anti-dumping duty of 104.18 percent imposed	USA
Sponge Titanium		Anti-dumping duty of 83.96 percent imposed	USA
Ferrovanadium	According to U.S. National Commodity List, 72029200 and 7202995040	Anti-dumping investigation conducted since 30 December 1994	USA
Vanadium Nitride	According to U.S. National Commodity List, 28500020, 38239036 or 81124060	Anti-dumping investigation conducted since 30 December 1994 (AO Vanadiy — Tulachermet [Joint-Stock Company Vanadium — Tula Ferrous Metals] and AO Chusovskoy metallurgicheskiy zavod [Chusovoy Metallurgical Plant] sent responses to the American side's questionnaires)	USA
Magnesium	8104	Anti-dumping procedure started (15 January 1994)	European Union

Russian Goods Against Which Measures To Protect National Markets Are Being Applied or Are About To Be Imposed	Foreign Economic Activity Commodity List Codes	Administrative Procedures	Countries Applying Protective Measures
Magnesium and Magnesium Alloys	According to U.S. National Commodity List, 81043000, 81041900 and 81042000	Anti-dumping investigation completed (12 May 1995). Shipments of these commodities by AO Solikamskiy magniyevyy zavod [Solikamsk Magnesium Plant] and AO Avisma, as well as by certain other exporters, are not subject to the imposition of an anti-dumping duty since instances of dumping were not confirmed. Shipments of Russian exporters not named in the U.S. Department of Commerce's decision will be subject to an anti-dumping duty of 100.25 percent	USA
Transformer Plate		Anti-dumping procedure started (7 May 1994)	European Union
Low-Carbon Ferrochrome	720241	Anti-dumping procedure started	European Union
Low-Carbon Ferrochrome	720241	Anti-dumping duty imposed	Brazil
Lock Washers		On 15 FEbruary 1995, preliminary monitoring was started with respect to the importing of washers into the USA. After the revision of Russia's Foreign Economic Activity Commodity List codes, monitoring was stopped	USA
Men's Shirts		As of 1 July 1994, an import quota was imposed on the importing of shirts (sports shirts) of 65,000 items per month or 780,000 per year. The annual quota increase is 6 percent	Canada
Hot-Rolled Sheet Steel in Rolls	According to Mexico's Commodity List, 72081201 and 72082201	Anti-dumping investigation begun. On 20 October 1995, public hearings will be held with the participation of representatives of Russian suppliers — the Magnitogorsk, Novolipetsk and Cherepovets metallurgical combines	Mexico
Bisphenol-A	2907233100	Anti-dumping investigation begun on 2 January 1995	India
Nitrogen Fertilizers	3102	Beginning as of 21 June 1994, effective for a period of 12 months, an import quota of 40,000 metric tons	Poland

Russian Goods Against Which Measures To Protect National Markets Are Being Applied or Are About To Be Imposed	Foreign Economic Activity Commodity List Codes	Administrative Procedures	Countries Applying Protective Measures
Industrial Carbon Black	280300900	On 12 May 1994, Poland's MVS [Ministry of Foreign (Economic) Relations] proposed holding consultations on the matter of restricting Russian exporting of industrial carbon black	Poland
Ammonium Phosphate		Additional anti-dumping duty imposed	Brazil

[Boxed material follows]

From the "Procedure for Submitting Statements on the Conducting of Investigations"

— The filer on the subject of the imposition of protective measures may be a federal organ of the executive authority or a component of executive authority at the request of Russian producers; directly, a Russian producer or an association of such producers.

— A statement may be accepted for investigation, if the total volume of the output of the Russian producers' goods competing with imported goods, in the total volume of their production in Russia, amounts to not less than 50 percent in instances of the imposition of special duties and import quota and not less than 25 percent for the imposition of anti-dumping and compensatory duties.

— In the event that the above-indicated commodity production volumes belong to one or two Russian producers, then a finding is needed from the State Committee for Antimonopoly Policy about the consequences of imposing protective measures on a competitive situation in the domestic market. [End of boxed material]

*Russian Science Ministry Offers Investors Best Developments

957A1086A Moscow FINANSOVYYE IZVESTIYA in Russian 22 Aug 95 p 8

[Article by Yuriy Yegorov: "The Minnauki (Ministry of Science and Technology Policy) Offers Investors Important Scientific Developments"]

[FBIS Translated Text] A breakthrough in the economy is impossible without putting new technologies into production and turning out high-quality, competitive products. This may be achieved in various ways. Many Russian enterprises have chosen the path of least resistance. They buy finished production lines, individual piueces of equipment, and even raw material from Western companies. This promises a quick return and profit, but not development in the future. Others, and they are becoming more and more numerous, are prepared and are already investing funds in plans for tomorrow, in domestic developments by scientists, designers, and inventors. There is one obstacle on this path—those who offer and those who will introduce must find each other.

The Russian Federation's Ministry of Science and Technology Policy has made an attempt to resolve this problem. A list of the most important scientific research and experimental design work (NIOKR), compiled in accordance with the projects selected which were financed in part or in full by the ministry, has been prepared. This is a document of an informational nature which is of interest to investors, the administrations of regions in Russia, and banks and investment companies (domestic and foreign).

The list contains 280 projects in practically all areas of scientific and technical development which may be applied in all sectors of the national economy. An absolute majority of the projects were completed over the past 4 years. The list has a detailed description of the development, the anticipated result from its introduction, and an assessment of the principal indicators which ensure its competitiveness. As a rule, the developments have characteristics superior to those already existing in the country and abroad or else there is nothing similar to them at present.

The projects also reflect the principal economic indicators: the investments required, the potential volume of sales, and the period for cost recovery. Inclusion of the latter was dictated by requirements of the president's Edict of 17 September 1994 "On private investments in the Russian Federation." The edict provides for the annual apportionment of 0.5 percent of the gross domestic product to finance highly efficient investment projects with a cost recovery period of no more than 2 years, as a rule. Three-fourths of the projects included in the list meet the requirements cited, and one-third of them may be classified as highly economical.

The rest of the projects were included in the list because of their high social importance (medicine and public health) or because they create stockpiles for progressive changes in the technological structure of the base sectors in industry (metallurgy, machinebuilding, and so forth). Particular emphasis in selecting the projects was placed on their ecological characteristics.

The total volume of investments required for all the projects is about $2 billion. There are businessmen for more than half the projects, which attests to the high degree of analysis of ways to bring about their practical realization.

The task of creating attractive economic conditions for potential investors is now moving to the forefront. It has become known that the Ministry of Science and Technology Policy has appropriate proposals.

We can familiarize ourselves with the description of projects in the list, as well as their prospectuses, at the exhibition of investment, innovative, and commercial offers by enterprises in the Moscow region, which is being organized by the Moscow Chamber of Trade and Industry within the framework of the meeting of mayors and presidents of trade and industry chambers (TPP) from the capitals of CIS and Baltic countries. It will be held in the Moscow municipal administration building from 31 August to 3 September 1995.

*Program on Stimulation of Investments Adopted

954E1307A Moscow KOMMERSANT-DAILY in Russian 11 Aug 95 p 3

[Article by Vladislav Borodulin: "You Can't Divide Up Nine Trillion Like a Trillion and a Half"]

[FBIS Translated Text]

The spoken statements of government bureaucrats regarding the need for attracting investments into the national economy are now being followed by all kinds of documents. As an example, the "Comprehensive Program to Stimulate Domestic and Foreign Investments" was adopted yesterday at a regular cabinet meeting. Of course, all of the provisions of the 30-page document will not be fulfilled: It is by far more difficult to break national traditions than to attract the attention of investors to unprofitable enterprises. But clearly, no harm can come from whatever does get done.

This is already the second time the government has considered the economic ministry's comprehensive program to stimulate investments. And to be sure, it did evoke a certain amount of displeasure yesterday. Chairman Oleg Soskovets was annoyed by the causes cited in the preface for low investment activity. "What do you mean by internal political instability, and what is your basis for saying that the actions of federal and local authorities are inconsistent? We are providing for the most important thing—the right of ownership." What else do these fastidious investors need? But this, of course, is not the main thing.

The main thing is that the program decreased noticeably in volume since it was first discussed, becoming much more specific. Chiefly in two of its sections. First, the traditional "plan of measures." It covers a year and a half, and it contains quarterly targets for the development of particular standards. It stands to reason that around a fourth of them will not be reached at all, and another fourth will be reached only in formal terms—at least because the standards will be developed by numerous officials defending various interests. But on the whole, the plan can inject some meaningfulness into the actions of the authorities in this area, and at the very least it will not worsen the investment climate in the country.

Things are somewhat different with another section of the program, concerned with the prospects for a competitive system for distributing budget resources. It should be said right off that it is anticipated to be close to 100 percent fulfilled. Let me explain why. Associates of the Ministry of Economics have shown on several occasions over the last year that in addition to being skilled cabinet scholars, they are also expert champions of the administration, able to crush all rivals. And they will never drop their support for the ministry's idea of how to fix things—by distributing the budget's money only on a competitive basis. all more so because next year, the volume of funds under the ministry's control will be increased significantly: According to different estimates (the budget hasn't yet been approved) it will amount to 3 to 9 trillion rubles.

This year's experience of distributing the budget's money on a competitive basis showed that the means of competitive stimulation of investments are extremely meager: advantageous credit, or purchase of shares amounting to 20 percent of the total cost of a project. In addition the Central Bank has only just given its consent to open special accounts No 170 and No 180 by which to transfer money to the winning projects. Because of all of this, as well as the fact that not enough high-quality projects were proposed, very little of the R1.5 trillion were utilized under the progressive scheme (it was much easier to obtain an advantageous budget loan, which is what the enterprises did). The ministry proposes major changes for next year. First, it is introducing the institution of state guarantees to investors. The first attempts at creating such a mechanism were made last year, when the government decided to create an investment consortium of banks. But this project was never realized—such expenditures were not foreseen in the budget. Now, however, if we are to believe statements from the Ministry of Economics, banks belonging to a certain Russian community of investors are prepared to give almost R2 trillion in state guarantees.

The second innovation will be certification of projects. The state's share of a project will vary depending on its "quality." Production of products with no world analogues will be at one end of the scale (50 percent state participation), and production of products able to find a solvent demand will be at the other (20 percent). Specialists of the Ministry of Economics hope that this will make it possible to conduct auctions that would attract investors, because government certification would "dramatically increase the trust of foreigners in a project." It is obvious however that certification can perform this function only in an information vacuum. It may be suggested that in the future, the value of the "1996 emblem of quality" will decrease, giving way to the purely financial interests of investors.

The Government's Plans Until the End of the Year

To draft the law "On Safety of Private Deposits in State and Commercial Banks, in Investment, Trust and Other Companies, and in Joint-Stock Companies"; to develop proposals on increasing liability for violations associated with foreign exchange operations and with unlawfully exporting capital; to develop proposals on improving statistical reporting on foreign investments, and to define the concept "portfolio investments"; to determine the criteria by which to appraise land parcels; to determine the procedure by which to account for the value of land parcels in the assets of commercial organizations, including those with foreign investments; to develop the procedure by which taxpayers are to submit appeals to tax agencies; to develop a standard contract for the purchase and sale of the stocks of privatized enterprises by foreign investors; to develop proposals on abolishing excessive restrictions on the use of Russian foreign exchange by nonresidents investing in the Russian economy.

*Regulations Governing Foreign Trade Transactions Examined

954E1298A Moscow EKONOMIKA I ZHIZN in Russian Aug 95 No 33, p 1

[Article by V. Oreshkin, director of the All-Russian Scientific Research Institute for Market Conditions of the AOOT: "Foreign Trade: The Legal Vacuum Remains"]

[FBIS Translated Text] Improving foreign trade legislation is a pressing problem, and this is not the first year that it has been discussed. In many ways, its urgency would be removed as the result of passing a new law, which has simply not appeared. Let us recall the development of the situation.

After numerous agreements between the organs of legislative and executive power, on 12 May 1995 the State Duma passed, at the second and third reading, the Law "On State Regulation of Foreign Trade Activity," which in its initial variants was examined as the Law "On Foreign Economic Activity." The change in the name of the law also fully reflected the change in the content of the former draft laws. It became more specific in nature, particularly in the part defining the specific nature of interrelations between the state and those participating in foreign economic (foreign trade) activity. The exclusively practical aspect also acquired concepts and definitions which were introduced into foreign trade legislation for the first time.

The law was approved in the Federation Council by the deadline established, but on 7 June the President rejected it, for the reason that this law conflicted with the Russian Constitution on a number of points and did not agree with the Customs Code and the Law "On the Customs Tariff." To solve the problem, a conciliation board was set up, which included representatives of the President and parliament. The law, finalized by the commission on the basis of the President's comments, was passed by the Duma on 7 July by an absolute majority of votes and turned over to the Federation Council, which again approved it on 21 July. On 7 August, however, the President again put his veto on it, virtually repeating the formulas used in rejecting the first variant of the law.

Hopes that the law on foreign trade regulation would be passed in the summer therefore collapsed, and its fate was hanging in air. The organs of executive authority were deprived of the possibility of efficiently drawing up departmental instructions which would make specific the application of the basic points of the law. Life grew difficult for the legislative powers, which were to approve new draft laws in the sphere of regulating the processes of the influx and functioning of foreign investments in Russia, including the sphere of opening up and developing natural resources, and in turn, draft laws on free economic zones and on amendments to the legislation on currency regulation and currency control, and customs-tariff legislation. They were all to be based on the law on foreign trade regulation and to "meet" with it, for otherwise the ruinous practice, which exists to this day, of "variant reading" of individual legal acts of the highest level would remain. Those participating in foreign trade activity also suffered — the gaps existing in the legislation cast quite a bit of doubt on the legitimacy of their actions and served as a constant factor in the rise of conflicts between them and the organs which control them.

Let us not judge how much the points of the law conflict with the Constitution. If we mention its lack of conformity to the directives of customs legislation, however, it would appear appropriate to pose the question of something which conforms even less to the demands of present-day life — the rejected law or the Customs Code and the Law "On the Customs Tariff," which were passed as far back as the summer of 1993? In our opinion, it is the new draft law that takes into maximal consideration the changes that have taken place during the two years in the system of development and regulation of Russia's foreign economic activity — it is more viable. The solution to the problem must therefore be found on another plane: the legislation in force should be corrected in accordance with the new law, and the necessary amendments should be introduced in the Customs Code and the Law "On the Customs Tariff." After all, other laws are being continually amended, for example, tax legislation. At the same time, the new Law and the customs-tariff legislation in force should not and cannot replace each other, and each of them bears its own corresponding legal load.

Let us note the "innovations" which the law should establish for the first time in the system of state regulation of foreign trade. First of all, it defines the export and import, not only of commodities, but also of work, services and the results of intellectual activity, including the exclusive rights to them. This will fill a very substantial gap in Russian foreign trade legislation and solve an important problem which exporters of these "products" encounter in their practical work. A clear-cut definition of these concepts at the legislative level (not at the level of departmental instructions) will remove the possibility of conflicts arising between those participating in foreign trade activity on the one hand, and between customs and tax organs — on the other.

Russia's Foreign Trade

	January-July 1994 (bln dlrs)			January-July 1995 (bln dlrs)			January-July 1995 in % of January-July 1994		
	Turnover	Export	Import	Turnover	Export	Import	Turnover	Export	Import
Total	61.39	33.98	27.40	73.67	42.02	31.64	120.0	123.7	115.5
incl. without unorganized trade	54.95	33.88	21.06	67.17	41.78	25.39	122.2	123.3	120.5
Countries of the far abroad	46.39	26.19	15.58	52.51	33.41	23.60	122.9	127.6	116.8
incl. without unorganized trade	41.77	26.19	15.58	52.51	33.41	19.10	125.7	127.6	122.6
CIS countries	14.99	7.79	7.20	16.65	8.62	8.04	111.1	110.6	111.6
incl. without unorganized trade	13.18	7.70	5.49	14.66	8.37	6.29	111.2	108.8	114.6

Some operations are on the same footing with export, even without the commodities being exported abroad from Russian customs territory, particularly when foreign persons purchase goods from a Russian person and transfer them to another Russian person for processing and subsequent export of the processed goods abroad. In this way, "internal tolling" is not only recognized as a "customs process," by the instructions of the GTK [State Customs Committee] (for the time being in relation to metallurgy), but is also legitimized by a legal document of a higher level.

The draft law differentiates questions which are under the jurisdiction of the Russian Federation, of components (regions) of Russia and under their joint jurisdiction, and lays the foundation for elimination of "multi-authority," in the person of various ministries and departments, in the regulation of foreign trade activity. The federal organ of executive authority, determined by the government, is moreover essentially unified, and should deal with the development and practical realization of the basic directions of the foreign trade policy and regulation of foreign trade activity, and in particular, issue licenses to carry out export and import operations for which numerous restrictions have been established or an authorized procedure introduced.

A completely new feature in the law is the direct establishment of state monopoly on the export and import of some commodities, but the lists of these commodities may be determined only at the federal legislative level. The state monopoly is implemented on the basis of licensing exported supplies and imported purchases.

It can be said with certainty than any final editing of the law will retain the "set" of instruments by means of which the state presently regulates foreign trade activity, including measures for customs-tariff and non-tariff regulation, with substantial restriction of the sphere of application of administrative methods. At the same time, however, a number of problems remain.

At present, the sphere of direct restriction of foreign trade operations is really narrow, and is essentially lacking for import. About 6 percent of the country's export volume is now regulated by quotas, and approximately 5 percent falls under a special regulatory procedure. The export of 15 commodity groups of fuel-raw material products (less than half of the total export volume) is carried out on the basis of registration of export contracts. The customs tariff is therefore really becoming a weighty economic foreign trade regulator.

According to the legislation in force, the export tariff has less than six months "left to live" — until 31 December 1995, after which it is to be abolished. It is quite obvious, however, that it is proving to be more "tenacious" — not enough prerequisites have been created for its abolition. First of all, despite the rapprochement of domestic and world prices, a gap still remains between them, although the export of a limited group of commodities, primarily oil and natural gas, is now efficient from this point of view. The introduction of substantiated rent payments into the system of price setting for raw material commodities, which was to take the place of an export tariff, has come to a standstill. The situation is aggravated by the problem of the collectability of fiscal payments to the budget, which will be exacerbated if export customs duty is given up.

Tariff regulation of import contains the same miscalculations. The introduction of VAT in the spring of this year, and of a "special tax" in the summer — an increased import duty on foodstuffs — was linked with the realization of one of the three functions of the import tariff — the protectionist function. The new duty rates will be unable to fulfill this function, which was particularly shown by an experiment, lasting for a year, when they were increased "in the interests" of Russian producers of agrarian products. It is quite obvious that next time an attempt will be made, and moreover, not completely miscalculated, to replenish the budget through fiscal receipts from import.

The fact that the import tariff should possess a certain flexibility and be based on the interests of both national producers and consumers is a truism. The economic consequences of over-abrupt movements in this sphere must be clearly pictured, however. Under the present conditions, quantitative and technical regulators of product import could play a more effective role in protecting Russian producers (and consumers too) — on this plane our import is the most liberalized in the world. In particular, the certification system should extend to a much wider group of imported goods, and it is completely incomprehensible why there has been a delay in passing a resolution on its application to import from the CIS countries.

Export of Basic Commodities

	1st six months of 1994, %	1st six months of 1995, %
Minerals products	44.28	44.73
Metals	16.03	16.87
Chemicals	6.84	7.69
Timber	3.47	4.56
Foodstuffs and raw material	3.32	2.97
Machines and equipment	7.50	4.97

The problem of having the system of state foreign trade, currency and price accounting and control "built-in" to the general structure of foreign trade regulation is being exacerbated. "Shock" liberalization of foreign economic activity, the cumulative adverse effect of which is already obvious, though the "fruit" still lies ahead, has made it necessary to create a complex, clumsy system of accounting and control, scattered through various departments. Included here, as we know, are the system of currency control, under the aegis of the GTK and the Central Bank, which actually fulfills only accounting functions; the MVES [Ministry pf Foreign Economic Relations] system of quality evaluation of the facts of the non-arrival and the under-arrival of currency receipts in the accounts of the authorized banks; the system, supervised by the MVES, of registering export contracts with the object of exposing supplies of goods at understated prices. By now, official documents are being drawn up or prepared for use, on creating a unified system of foreign trade and currency monitoring, which stipulates the combining of systems of price and currency control in export; a system of currency control in import; a system of compulsory expert evaluation of the quantity, quality and conformity of the prices of the goods being exported.

Any systematization will bring obvious fruit, if it has a realistic basis and its application is guaranteed.

For example, the price control system has already begun to lose its initial "fighting" qualities, by virtue of the fact that the authorized MVES do not have these formal rights to suspend registration of export contracts, because of a lack of new detailed methodological instructions on the procedure for this registration. The exporters, who have been adapting for a year to a system of price control, manipulating the conditions of concluding contracts (with respect to the quantity and quality of the goods, terms of payment, etc.), are simply bypassing this control. According to MVES operations information, an analysis of the basis of these registration certificates of contracts drawn up from March to July 1995 revealed a substantial scattering of export prices, for example: for oil — by over a factor of 4, commercial conifer wood — a factor of 3.3, and copper — a factor of 1.5, etc.

The effectiveness of the functioning of any "unified systems" of regulation will therefore depend on how thoroughly the elements which make them up have themselves been worked through. Otherwise, the system as a whole will turn into a "stillborn child" and a multitude of useless instructions will appear, which make work difficult for exporters, for importers and for the state employees who control them.

Finally, the last point. The author is concerned about the confirmed "market people," but he is also convinced that a reasonable, but sufficiently noticeable re-establishing of state monopoly in the export and import of certain goods is extremely necessary under today's conditions. Otherwise, Russia will soon have simply nothing to do on the world market.

'Successful' Half-Year Foreign Trade Results

954F3208A Moscow SEGODNYA in Russian
15 Aug 95 p 7

[Article by Elmar Murtazayev: "MVES Insists on State Support to Exports: Checking the Present Rate of Growth of Foreign Trade Turnover Would Hardly be Possible in the Second Half of 1995"]

[FBIS Translated Text] The results of Russian foreign economic activity for the first half of 1995 turned out to be extremely successful: The tendency for foreign trade volume to grow persisted. Thus, foreign trade turnover (not counting unorganized trade) was $56.4 billion, which is 20.5 percent more than in the same period of 1994. Turnover with countries of the far abroad grew 23.5 percent to $44.2 billion. Over half of the turnover was with European states. The Russian Federation's positive trade balance reached $14.3 billion, including $12.4 billion with countries of the far abroad. In the opinion of Igor Ilingin, chief of the main economic administration of the MVES [Ministry of Foreign Economic Relations], "all of this confirms that Russia's integration into the world economy is continuing." The MVES representative feels that the increase in volume was brought on chiefly by liberalization of foreign economic activity. As we know, this year exports of petroleum and petroleum products were liberalized, and the institution of special exporters of strategically important raw materials, which is what Russia exports most of, was abolished. Thus, the number of organizations exporting these goods increased in the second quarter by an average of 20 percent, and in particular, by 66 percent for wood, 30 percent for fertilizers, and 60 percent for sunflower seeds and soybeans.

In addition the export volume grew because of a decrease in internal demand for domestic products and growth of world prices on many raw materials making up the traditional assortment exported by Russia. For example the average export prices on oil grew from $88 to $106 per tonne, those on gas grew from $63 to $67 per thousand cubic meters, and those on petroleum products grew from $91 to $100 per tonne. World prices on fertilizers, ammonium, pulp, methanol, paper and nonferrous metals were observed to grow. Taken all together, these factors increased exports by almost 25 percent (exports totaled $35.4 billion in the first half-year, including $28.3 billion to the far abroad).

Imports increased 15 percent, reaching $21 billion (to include $15.9 for imports from the far abroad). Specialists of the MVES feel that the continuing decrease in production inside the country has become an important factor affecting change in the structure of imports. As an example growth was observed in the consumer goods sector only in relation to macaroni products. Production is decreasing in relation to all other goods—by 29 percent for meat, 18 percent for sausage products, 21 percent for butter and 31 percent for vegetable oil.

It is precisely for this reason, MVES experts feel, that purchases abroad continue to grow significantly in Russia. Thus, imports increased 27 percent for meat, 47 percent for poultry, 35 percent for butter and by a factor of 3.4 for vegetable oil. The share of imported foodstuffs in the domestic market is now nearing 40 percent. According to MVES forecasts the tendency for growth of imports will persist to the end of 1995. Foodstuffs and raw materials from which they are produced will make up approximately 30-35 percent of the total import structure. Around 15 percent will be consumer goods, and the share of machinery and equipment will be around 37 percent. Solvent demand within the country, the exchange rate of the ruble in relation to foreign currencies, the inflation rate, and the general increase in import duty rates as of July will affect the volume and structure of imports in the next half-year according to predictions of the MVES.

But the fate of Russian exports after that appears less optimistic. According to MVES forecasts the total increase in export volume for all of 1995 will be from 11 to 18 percent (recall that growth was 20.5 percent in the first half-year), which will mean a significant decrease in the rate of growth of Russian exports.

In the words of Mr Ilingin there are several causes behind this process. The natural factors determining growth of exports were practically exhausted by mid-1995. Thus, in the first quarter of this year exports totaled 182 percent of the nickel production volume, 304 percent of copper production, and 110 percent of aluminum production. In other words Russian exporters exported more than Russian enterprises produced. This in turn means that Russia has been exporting old inventory.

However, in the words of the MVES representative the main cause of the continuing decline in effectiveness of Russian exports is the current exchange rate of the ruble. Because the exchange rate lags behind the rate of inflation, exporting many Russian goods simply becomes unprofitable. Such goods include products of ferrous and nonferrous metallurgy, and chemical, timber and wood processing industry. Recall that according to government data reported during a July meeting by Prime Minister Viktor Chernomyrdin, every 10 percent increase in the value of the national currency means around a 4.5 percent decrease in export volume. Nonetheless, in Mr Ilingin's words these calculations are valid only for the first stage of growth of the foreign exchange rate. If the dollar's decline exceeds 10 percent, the drop in effectiveness of exports would be even more substantial—this relationship is not a linear one. In the MVES representative's estimation the decrease in exports that has followed introduction of the foreign exchange corridor can only cause production to decrease, because there is no demand for the raw materials in Russia's domestic market.

The decrease in share of exports of industrial products remains one of the most acute problems. While machinery and equipment made up 8.7 percent of all Russian exports in 1992 and 6.5 percent in 1993, their share was only 5.3 percent in 1994. The tendency also persisted into the first half of 1995: Industrial exports equal only 5 percent. The MVES is taking steps to lift various discriminatory restrictions on Russian exports, including the offering of materials of the nuclear cycle and power producing equipment in foreign markets. But in Mr Ilingin's opinion radical change in the situation would require adoption of a state system of support to industrial exports. The MVES is working on a federal program of export development and the government decree "On Providing Additional Support to Export of Goods and Services Produced by Russian Commodity Producers." There are plans to provide advantageous credit to production and export of high-technology products, to insure and guarantee export credits, and to provide assistance to Russian organizations in pushing finished products through foreign markets.

However, realization of these plans of the ministry is very much in question already, in the present stage of forming the budget for 1996. According to Mr Ilingin the MVES requested that around 10 percent of all income from foreign economic activity—approximately R4 trillion—be reserved in the budget to support exports. But the draft federal budget for 1996 doesn't have this money. The ministry of finance, whose budget policy does not foresee expenditures on areas of the economy that are able to earn money on their own, will hardly opt for subsidizing export programs.

Realizing that their budget requests are somewhat inopportune, MVES experts have proposed another scheme for supporting Russian exports. As we know, export duties were to be abolished as of 1 January 1996. This was also reflected in a joint statement of the government and the RF Central Bank "On Economic Policy in 1995." Nonetheless the materials submitted for the 1996 budget call for retaining import duty in 1996, although the rates are an average of half of the current rates. This creates an additional source of budget income, which in the opinion of MVES experts could be allocated to finance programs to support Russian exports. Mr Ilingin said that if this issue is not resolved during preparation of the budget, it "will become a major issue" during examination of the budget by the State Duma. And if the government decides against the MVES proposal, Mr Ilingin feels that Russia will find itself in 1996 with not enough foreign exchange for imports and to pay its foreign debt.

*New State Loan Bonds To Be Issued in September

Text of Edict on Bonds

954E1268A Moscow ROSSIYSKAYA GAZETA in Russian 12 Aug 95 p 2

[Edict of the President of the Russian Federation on State Loan Bonds of the Russian Federation]

[FBIS Translated Text] For the purpose of ensuring the guaranteed safety of savings of the population, creating more favorable conditions for investment of the funds of Russian Federation citizens in state securities, and stabilizing the money market, I hereby decree as follows:

1. Recognize as necessary the issuance of state loan bonds of the Russian Federation by the Government of the Russian Federation

2. Propose that the Government of the Russian Federation ensure:

—the distribution of state loan bonds of the Russian Federation in September 1995 along with the possibility of acquiring them throughout the entire territory of the Russian Federation;

—advantageous conditions for investment of funds in the state loan bonds of the Russian Federation bearing in mind the payment of returns on them no lower than those derived from other types of state securities.

3. This edict goes into effect on the day it is signed.

[Signed] B. Yeltsin, president of the Russian Federation

[Dated] Moscow, the Kremlin, 9 August 1995, No 836

Bonds' Effect on Financial Stability Questioned

954E1268B Moscow PRAVDA in Russian 11 Aug 95 p 2

[Article by I. Sharov: "We Are Scratching Our Heads. We Always Get Tails"]

[FBIS Translated Text] With the assurances of certain government officials about the clear stabilization of finances there appeared one piece of information which injects a note of dissonance in such assertions. It seems that the first state loan bonds will appear on the government debenture market on 1 September in the amount of 1 trillion rubles, which in due time will increase to 10 trillion.

According to I. Kovtun, deputy chief of the Department of Securities and the Financial Market of the Ministry of Finance of the Russian Federation, this measure will be a stabilizing factor in the entire economy guaranteeing the safety of our savings. True, the search for additional money for the state treasury, which is not very substantial, is quite justified, particularly in the current situation when the Chechen adventure alone will be sucking several trillion rubles out of it. (Initial estimates indicated 5 trillion, but that is a "ceiling" estimate). In addition, the state treasury owes 6 trillion in "wooden" rubles in various payments. There are also huge expenditures on the support of the huge corps of officials.

Thus, people are to give to the government, but the people, taught by the sharp habits of the officials, remembering 1992 when all that was left of the savings of the population were rubble and dust, will hardly be rushing out to the securities market. A wise person will first scratch his head: it would appear to be our own government, but quite often it turns out to be a stranger. Also, where will the rank and file, not the "new Russians," obtain the money to purchase bonds? I feel sure that the GKO (government short-term bonds) and the planned bonds of the savings type will be purchased on a massive scale by "moneybags," market bigwigs. The government will be in their debt which is currently in fashion if one recalls that the consortium of the biggest Russian banks intends to loan 9 trillion rubles to the state treasury secured with a block of state shares in the basic branches.

It is known that certain people have accumulated some money and it is foolish to keep it in a money box. It would be very good to convince them and expand the slim ranks of investors in our economy. That should be accomplished by means of the most reliable method by fully returning the money that was stolen over three years ago. So far, however, the hand that takes is more nimble and brazen than the hand that gives and those who have money prefer a pillow; a ruble is more secure under it.

Terms, Reliability of Bonds Described

954E1268C Moscow ROSSIYSKAYA GAZETA in Russian 15 Aug 95 p 3

[Article by A. Podymov: "A State Loan of the Market Epoch"]

[FBIS Translated Text] **The First Series of Savings Bonds Are Ready for Issue**

As already reported, the president of the Russian Federation signed an edict regulating the issue of a form of securities that is new on the domestic market—state loan bonds of the Russian Federation.

The Russian Government appeared as the initiator of the issue. The principal goal is to introduce an additional stabilizing factor on the exchange and finance markets while at the same time giving buyers the opportunity to make effective investments with cash and non-cash assets.

The new type of debentures differs radically from the notorious 3 percent loans of Stalinist times or the types used in 1966 and 1982. It is also designed for a shorter term and the securities will circulate freely on the market.

The first series for 1 trillion rubles will be on sale by early autumn.

The bonds represent bearer securities with face values of 100,000 and 500,000 rubles. They will be distributed on the market through the Savings Bank and a network of commercial banks which are assigned the task of servicing the bonds. The list of such banks is now being prepared.

It is planned to pay interest on the bonds on a quarterly basis for which purpose the security form will include special detachable coupons. Each coupon covers a three-month interest-earning period and its amount is declared beforehand—a week before the start of the coupon term—while the disbursement of interest begins immediately upon its expiration.

Naturally it is possible to receive full interest for the coupon term only after three months, but no one is prohibited from carrying out buy-sell operations with the bonds throughout their term. The first series has a very short term: just one year.

The interest rate for each coupon period is set proceeding from the market conditions which form at the given moment and is tied to the profitability of other types of state securities. At the Ministry of Finance they are not concealing their aspiration to maintain the profitability of the bond at a level above the national rate of inflation. It is planned to pay holders of the bonds of the first issue interest of around 100 percent per year, which is also exempt from taxes.

An important characteristic of the new bonds is the guaranteed redemption by the government at the end of the circulation term. The servicing banks do not have the right to delay redemption or payment of interest on the bonds.

*Terms for Issuing, Redeeming Savings Bonds Established

954E1320A Moscow ROSSIYSKAYA GAZETA in Russian 25 Aug 95 p 5

[Text of "Russian Federation Decree No. 812 of 10 August 1995 on the General Conditions for Issuing and Circulating Russian Federation State Savings Bonds" signed by V. Chernomyrdin and the supplement "General Conditions for Issuing and Circulating Russian Federation State Savings Bonds"]

[FBIS Translated Text] In conformity with the Russian Federation Law "On the Russian Federation's state domestic debt" and in order to actively attract funds from the public for financial stabilization of the Russian economy and guarantee the security of public savings, the Russian Federation Government **decrees:**

1. That the Russian Federation Ministry of Finance is authorized to issue a Russian Federation state savings loan in the 1995-1996 period in conformity with the General Conditions for issuing state savings bonds of the Russian Federation in the amount of up to 10 trillion rubles [R] in 10 series of R1 trillion each. That bonds in the first series are to be distributed for a redemption period of 1 year beginning in September 1995.

2. The General Conditions for issuing and circulating the state savings bonds of the Russian Federation are approved in accordance with the supplement.

3. The Russian Federation Ministry of Finance is to:

— draft and approve models for the Russian Federation state savings bonds;

— provide for preparation of the savings bonds at enterprises of the "Goznak" Association under the Russian Federation Ministry of Finance; and

— draft and approve the procedure for using the funds obtained from distribution of the Russian Federation state savings loan.

4. The holders of Russian domestic lottery bonds of 1992 are granted the right to voluntarily exchange them for the Russian Federation's state savings bonds.

5. State radio and television broadcasting organizations are to conduct a widespread informational campaign aimed at popularizing the conditions for the Russian Federation's state savings loan among the public.

[Signed] **Chairman of the Russian Federation Government**

V. CHERNOMYRDIN

* * *

General Conditions for Issuing and Circulating Russian Federation State Savings Bonds

1. In conformity with the Russian Federation Law "On the Russian Federation's state domestic debt," these General Conditions set forth the procedure for issuing and circulating the Russian Federation's debt

instruments in the form of state securities in Russian Federation currency.

2. The Russian Federation Ministry of Finance issues the Russian Federation's state savings bonds on behalf of the Russian Federation.

3. The total volume of the Russian Federation's state savings bond emission is determined by the Russian Federation Ministry of Finance within the limit of the state domestic debt set by the federal law on the federal budget for the corresponding fiscal year. The Russian Federation's state savings bond emission is conducted in the form of individual issues.

4. The Russian Federation's state savings bonds are issued in documentary form, they are state securities for the bearer, and they grant the right to their owners to receive interest income which is calculated quarterly for the nominal value of the Russian Federation's state savings bond, which exceeds the level of return for other types of state securities, and to receive the nominal value of the bonds when they are redeemed.

5. Owners of Russian Federation state savings bonds may be legal entities and natural persons that are residents and nonresidents under Russian Federation law, unless otherwise stipulated by the conditions for individual bond issues.

6. Based on these General Conditions, the Russian Federation Ministry of Finance approves the conditions for individual issues of Russian Federation state savings bonds which must contain the periodicity of the issues; the volume and period of each issue; the type of bonds; the procedure and form of payments and redemption; the procedure for validation of the issue and restriction to potential owners; the nominal value; and the amount, periodicity, and procedure for payment of interest on the Russian Federation's savings bonds. The bonds within each issue are equal to each other with respect to the rights granted.

7. The Russian Federation's state savings bonds are bought and sold freely in Russian Federation territory by authorized banks and other financial organizations, determined by the Russian Federation Ministry of Finance on the basis of agreements concluded with the banks cited by the Russian Federation Ministry of Finance.

*Roundtable on Prospects for Short Term Bonds Market

954E1301A Moscow EKONOMIKA I ZHIZN in Russian Aug 95 No 33, p 39

[Round Table with S. Chaplygin, S. Kutukov, L. Zelkova, Ye. Grigoryeva and S. Yarmolinskiy, organized by the Nefteprodukt KB: "Treasury Bonds: The Lack of an Alternative"]

[FBIS Translated Text] **The appearance of treasury bonds (KO) has drawn the fixed attention of investors from the very beginning. The high income and liquidity of these securities have made it possible for them, in a very short time, to occupy a firm place on the stock market. Along with this, during their existence, treasury bonds have demonstrated their right to life, not only as a convenient form of handling foreign debt, but also as an effective means of reviving economic turnover under the conditions of extensive non-payment.**

Has the KO market discharged the functions and tasks placed on it? What must be done to improve it? What are the prospects and trends for its development? These and other questions are discussed by the participants in a "Round Table," organized by the Nefteprodukt KB [Commercial Bank] among the banks that are depositories of the RF Ministry of Finance authorized to handle the issuing of KO.

What Is This Good Thing....

[S. Chaplygin, chief of the Nefteprodukt KB Department of Stock and Trust Operations] One can say with certainty that treasury bonds are an effective instrument in the hands of investors. When they are used with skill and competence, a somewhat higher profit can be gained than in other sectors of the stock market. Despite the quite complicated mechanism of circulation (a considerable number of bond transfers), investors invest a large amount of funds in operations with KO, which makes it possible not only to support the high liquidity of these securities but also, indirectly, to finance federal programs specified by the budget.

The appearance of a secondary market for treasury bonds therefore contributes to drawing real funds into production, leaving speculative opportunities for the players.

[S. Kutukov, chief of the Mezhekonomsberbank Department of Depository Service] The KO market is quite attractive to investors. The reliability, highly satisfactory income, liquidity of the securities, state guarantees and predictability of the market conditions contribute to this.

At the same time, the specificity of the market makes it more attractive for large structures which possess sizable financial resources and are capable of investing in KO, sometimes for an extended period of time. Small investors, including physical persons, find themselves on the market occasionally, and often by chance. Investors who are non-residents of the Russian Federation are completely excluded from the KO circulation process.

[L. Zelkova, head specialist of the ONEKSIM Bank Information Support Administration] The fact that the Ministry of Finance has not once violated the deadlines for liquidating them also contributes in many ways to the investor's interest in operations with KO.

Information — the Way to Success

[Ye. Grigoryeva, chief of the Menatep Bank Department of Depository Service] The level to which enterprises are informed about the KO market is quite high. The differences in prices are determined, not by insufficient information, but by the regional peculiarities of the market and the volume and additional conditions of the transactions.

[S. Kutukov] It is premature to talk about a high level of informedness, it is rather, minimally sufficient. In any case, there are hardly any KO-holding enterprises left today which would not in some way or other have the initial information on this security and its normative base. The first KO holders found themselves informed to a considerably lesser degree on the current quotations for the series on the market. Considering the fact that operations with KO are mainly carried out at the country's financial centers (Moscow, St. Petersburg are the cities which, by their location, are the main authorized depositories), they also have on-line information on market conditions at their disposal.

The first KO holders in the regions, can therefore obtain information on market conditions only from a specialized press, which is not always accessible and on-line for them, or from professional operators or their representatives in the regions, which is to a considerable extent subjective and a very tendentious reflection of the real picture.

Hazy Prospects

[S. Kutukov] The capacity of this market in many ways depends on the attractiveness to investors of other securities, alternatives to KO. At present the volumes of resources being "absorbed" into treasury bonds have a tendency to increase, which indicates the available reserves and interest in expanding activity in this direction. At the same time, the possible changes in the structure of the securities circulating on the market, to the same extent as the change in parameters of the normative KO base, may introduce certain correctives in the mood of the investors with respect to market prospects.

[L. Zelkova] When speaking of the prospects for development of this market, one should take into consideration the uncertainty of the opinions of authorized persons of the RF Ministry of Finance concerning the further use of this financial instrument. Because of this, the work done by commercial banks to improve the KO circulation mechanism is made much more difficult, and if the use of KO ceases — unprofitable. It does not seem possible, therefore, to talk at this time about any prospects, without the appropriate decisions of the RF Ministry of Finance.

The Demand Gives Rise to the Supply

[S. Yarmolinskiy, chief of the RATO-Bank Securities and Stock Operations Administration] Treasury bonds, as a means of legalizing internal debt, have a limited speculative potential. One can even say that the speculative interest of the market in KO was above all engendered by the woeful state of Russian enterprises, which made it possible for financial structures to purchase them at a low price and obtain a high income for liquidation.

Already, however, KO (being issued and already in circulation) are used for their direct purpose, landing on the speculative market only in a limited quantity. This has led to a leveling of the market and a reduction in current income.

[S. Chaplygin] The appearance of KO has made it possible for commercial banks (including ours) to expand the range of services offered to clients. They include: extending credit, using the KO as security, extending credit with treasury bonds (at an interest rate lower than the market), buying and selling KO at a flexible rate of exchange, using individually worked out payment schemes, and a search for clients interested in the series and periods for liquidation, as well as depository service.

The Nefteprodukt Bank has begun actively conducting operations to exchange KO for bank interest-bearing notes and deposit certificates, and to implement promissory note credit, using treasury bonds. Our clients can always obtain a detailed consultation from the bank's specialists on all questions of the circulation of KO and other securities.

Centralization — a Panacea or a Problem

[S. Chaplygin] The increase in the KO market capacity and the number of holders makes it necessary to establish correspondent relations between the depositories handling the issuing of treasury bonds. To carry out operations with different series of them, a depot account must be opened in a certain depository, which will reduce the effectiveness of transactions with these securities. It will also cause a lot of inconvenience for the first KO holders, which are, as a rule, regional enterprises.

There are various possibilities for solving the problem. In the first place, we can set up a single depository to collect and process all information on the KO market. Unfortunately, however, this is a very expensive undertaking, and requires that an additional staff be created, since it is doubtful that any of the existing organizations engaged in this activity can fulfill the functions of a single depository. In the second place, it is possible to join the depositories in a system of correspondent relations, but in this case the rules and regulations of the activity of the authorized banks must be, unified. In the third place, these two ideas could be developed in parallel, if the interests of the state, enterprises and banks were always mutually advantageous in the sphere of developing operations with KO and other securities.

[Ye. Grigoryeva] Realizing the idea of organizing a single depository in many ways depends on the level of technology which will be used in setting it up. It is unrealistic to transfer, for a short period, all the accounts into a unified depository and/or to set up a network to handle the KO market, which covers all the regions in Russia. For three or four months after the registration of rights to issue KO is transferred to a single depository, the market will be in a state of collapse, while the owners of the accounts get accustomed to using the new technology and the new organizational structures handling them.

"Cleaning Up" the KO

[S. Chaplygin] The inevitable reaction of the insufficiently regulated KO market was the so-called "clean-up." For the holder enterprises, this procedure was compulsory, caused by the need to "fix up" KO which had not undergone the obligatory number of transfers.

[S. Kutukov] A "clean up" of the KO, carried out by methods that do not conflict with existing legislation and normative base, is obviously a realistic reflection of the needs of their holders, who in no way need restricted payment instruments to replace the financial resources not fully obtained from the budget. Apparently because it was aware of this fact, the Russian Ministry of Finance contemplated a trend toward putting into circulation series KO, burdened with a minimal amount of endorsements. At the same time, preserving the sectorial principle of their issue, a complete rejection of restrictions seems highly unlikely.

Taxes as a Means of Incentive

[S. Chaplygin] The use of KO makes it possible for the enterprises to obtain additional profit when paying taxes to the federal budget, and on the basis of this, there are viable schemes, which many enterprises are actively using.

[Ye. Grigoryeva] The existing system of taxing the operations of enterprises with KO stimulates their use as a means of paying off creditor indebtedness, and obtaining a tax exemption, but makes it more difficult for the treasury bonds to make their way out onto the free market.

[S. Kutukov] It would appear that for enterprises, operations with KO are still an enforced measure, and uncharacteristic of them. Those holding treasury bonds go onto the market, not because of preferential tax operations with these securities, but in the attempt to solve their material problems, which arise as the result of insufficient budgetary financing. Moreover, as a rule, the enterprises — the first holders —consciously incur certain losses from operations with KO (as compared with budgetary financing). Professional stock market operators have the real advantages from the preferential taxation.

To Be or Not To Be

[Ye. Grigoryeva] The market got used to the new financial instrument —treasury bonds — no less than six months after the first series was issued.

At present, it is not only professional operators who are coming forth as active participants in the KO market, but also a large part of the organizations and enterprises. The introduction of new financial instruments (if the emission of KO stops completely), at the same time as new depository technology appears, will again create considerable problems for non-professional participants in the securities market, since it will be considerably more difficult for them to adapt quickly to the new conditions.

[S. Yarmolinskiy] In this connection, the possible cessation or cutback in the emission of KO in 1996 will become a factor destabilizing the interaction of enterprises and financial structures. Consequently, the handling of the state debt to producers through a system of commercial banks will be problematic.

How To Do Better, So That It Will Not Be the Way It Always Was

[S. Kutukov] One could probably argue about the imperfection of the presently existing procedure and introduce certain correctives in it, but right now any changes will inevitably bring confusion into the work of the depositories, and will make the very mechanism of handling the KO clumsier and in the last analysis, even more imperfect. Optimizing the procedure for distributing, circulating and liquidating these securities should obviously begin with an improvement in the KO themselves as an instrument of the financial market.

[S. Yarmolinskiy] Since today the paperless form of KO and attachment to a few authorized depositories are the reasons for their slow circulation, it would be advisable to build a system of handling treasury bonds in the following way:

The KO issued in paperless form, when transferred to a bank depository for handling, are blocked in depot accounts of the RF Ministry of Finance, in an authorized depository;

Notes of the bank-depository, with the banker's guarantee of the RF Ministry of Finance, are emitted for the entire sum of their issuing.

In this case the function of payer for the bonds (notes) is imposed on the commercial bank. The paper form of the note solves the problem of attachment to the depository and the opening of depot accounts. The banker's guarantee of the RF Ministry of Finance makes the note risk-free, and gives it the status of a state security. The bank, in liquidating its notes, clears off the debt of the state.

The conditions of an obligatory reserving by the banks of funds in the Bank of Russia, because of the emissions of these notes, should naturally be distinguished from the generally accepted conditions.

Summing Up

[S. Chaplygin] Treasury bonds have appeared as a reliable, profitable and liquid instrument of the stock market. With their appearance, the range of banking services (including depository service) expanded considerably.

In summing up, one can say that the KO market fulfills the functions and tasks imposed on it, solving the problems of "overdue financing," non-payments and a decrease in the monetary mass; it brings the state a considerable profit. As follows from everything said above, the continuation of their emission in 1996 will be advantageous for everyone — the Ministry of Finance, the enterprises holding the treasury bonds, the bank depositories and the operators of the stock market.

*Privatization Results in Regions Reported

954E1286B Moscow KOMMERSANT-DAILY in Russian 16 Aug 95 p 10

[Article by Olga Gorokhova: "Investors Are Not Passing Up Amur Gold and the Moscow 'Defense Sector'"]

[FBIS Translated Text] **The official results of the completed check privatization were published last week in Tatarstan. The privatization went quite sluggishly, but all the same, almost all the republic's inhabitants made use of name [made out in their name] privatization checks (IPCh). In Moscow, however, the Tenzor Plant became the first and, it would appear, not the last enterprise being privatized which was formerly considered closed. The Stipler Company was declared the winner of the investment competition. It is the second year that the Sayanskkhimprom AO has been balancing on the brink of bankruptcy, and the next postponement will again leave it in this shaky position.**

Check Privatization Has Been Completed in Tatarstan

On 1 August the Republic of Tatarstan concluded privatization in exchange for name privatization checks, which had been going on for two years.

Last week, the republic's Goskomimushchestvo distributed a press release, which summed up the basic results of the first stage of privatization. Over half (51 percent) of Tatarstan's state property was privatized for IPCh. In the course of privatization, over 800 republic enterprises were put up for auction at check auctions. Their total charter capital was 827 billion rubles [R]. As a result of the privatization, 41 percent of the total charter capital remained under state ownership, and 43 percent was turned over to the labor collectives of the enterprises. Some of the IPCh with a total face value of R36 billion were deposited in the republic's investment fund. In all, Tatarstan registered 16 investment funds with the total number of depositors constituting 480,000 people.

As the press release pointed out, the overwhelming majority of the Tatarstan inhabitants — 95.68 percent — made use of name privatization checks. The unclaimed checks will go to the republic's government to support needy citizens.

A Computer Firm Has Bought a Large Bundle of Shares in a Defense Plant

Last week the Property Fund of Moscow Oblast reported the results of an investment competition for sale of the shares of the Tenzor AO — a large enterprise producing nuclear power equipment. The plant also makes instruments for nuclear-physics research, warning signal and fire-extinguishing systems, and power supply sources, small semi-automatic welding machines, motor vehicle starter devices, low- and high-voltage power sources, systems and instruments for filtration equipment, and household filters to purify drinking water.

Tenzor is in the Moscow suburb of Dubna — a center for Russian nuclear research — and belongs to a sector of medium-size machine building which was formerly classified as strictly secret. Access of investors to shares in such enterprises was tightly closed until recently. The serious crisis in nuclear power which is being projected, however, forced the government to put the state bundle of the Tenzor Joint Stock Company in the investment competition. At the time the competition was announced, the plant was in a quite deplorable state, but nevertheless, the competition was held.

The Stipler Company, which belongs to a retail computer equipment and software sales network, was declared the winner of the investment competition. It is possible that by investing funds in Tenzor, the Stipler directors felt that the plant, put back in its normal condition, would to a considerable extent guarantee their orders. For the time being this case might be called unprecedented, although liberalizing the government's views on privatization of secret enterprises may noticeably stabilize their shaky situation.

True, in this case the volume of investment is small — only $1,510,000, but the fact of the beginning of investment in closed enterprises is in itself noteworthy.

Is "Gold Fever" Beginning on the Amur?

The Amur Oblast Property Fund last week reported the holding of a money auction in the form of a closed tender for the sale of shares of the Priisk Selemdzhinskiy AO. The charter capital of the AO, determined at 1992 prices, is R54,777,000. The Tokur Mine, a concentrating mill, brick and asphalt plants and saw mills, woodworking and joiner shops, a boiler house and a diesel electric power plant are all under the ownership of the AO.

Quite a large bundle was put up for auction — 21.06 percent of the charter capital. The 11,538 shares proposed for trading were divided up into two equal lots of 5,769 pieces each.

The starting price of a single share was R10,000. The securities of Russia's gold-mining enterprises have always drawn serious attention from major investors, both domestic and foreign. This auction will obviously be no exception. The entrepreneurs' interest in the gold fields will apparently also be roused by the value of the bundle being put up for trading.

KD experts, however, assume that it will be hard for investors to compete with the well-known Tokur-Zoloto AO, which will probably try to buy up the entire packet put up for trading.

You Cannot Be Bankrupt....

Bankruptcy is not the only way to solve problems. The example of the Sayanskkhimprom AO (the enterprise is a monopolist in the production of polyvinyl chloride resins) shows that another way out can be found.

A year ago, KD wrote about the attempts of the Madzhes joint venture, which is controlled by a better-known structure — the Bioprotsess AO —to gain the status of foreign manager of this enterprise. The Irkutsk Oblast arbitration court, however, at that time denied the joint venture this possibility, despite the fact that the auditing firms acknowledged that the enterprise was insolvent. The position of the major creditors of the AO — the Angara Petrochemical Company and the Irkutskenergo AO — for whom, of course, the one-and-a-half-year moratorium on the debts of Sayanskkhimprom was extremely unprofitable, played no small role in this.

The position of this enterprise a year later could not be envied either. Just recently, its creditor indebtedness was R131.4 billion. All those same main creditors of Sayanskkhimprom — the Angara Petrochemical Company and Irkutskenergo — appealed to the arbitration court. They insisted that their debtor be recognized as insolvent and an outside manager be appointed to the enterprise.

After negotiations, however, the parties came to an agreement. The Sayanskkhimprom AO was obliged to clear off the overdue creditor indebtedness before the end of this year, and henceforth to pay in full and on time for the electric power being supplied and for the supply of oil.

In turn, Goskomimushchestvo reported that in the fourth quarter of 1995, investment trading would be carried out on the not yet sold bundle of the enterprise's shares. If they go successfully, the working capital of Sayanskkhimprom will be considerably replenished. The Irkutsk Oblast Administration has also taken a feasible part in rescuing the joint-stock company. The local management agreed to give the enterprise a preferential loan for a period of one year to purchase oil.

All these humane actions toward the enterprise, however, will be implemented only if it clears off the debts according to the agreement approved by the arbitration court. Otherwise, the process will be resumed.

*Duma Committee Chairman on Property, Privatization

954E1263A Moscow EKONOMIKA I ZHIZN in Russian Aug 95 No 32, p 6

[Interview with Sergey Vasilyevich Burkov, chairman of the RF State Duma Committee on Property, Privatization, and Economic Activity, conducted by Ye. Proklova: "What Path Will We Follow? Legislative"; place and date not given]

[FBIS Translated Text] **Not so long ago in an interview with S. Burkov, chairman of the RF State Duma Committee on Property, Privatization, and Economic Activity (see EKONOMIKA I ZHIZN, No 22, p 6), we addressed one of the most burning questions concerning the second stage of privatization—the fate of blocks of shares of the largest Russian enterprises retained under federal ownership. Since that time, owing to the energetic activity of Russian parliament members, the situation has changed somewhat. We again turned to Sergey Vasilyevich Burkov with a request to comment on the most significant draft laws.**

[Burkov] Among the draft laws, which were considered by the State Duma, I would like to single out three, which are united by the circle of problems solved by them. Let us begin with the draft law "On Alienation of Blocks of Shares." It has already been discussed at the Federation Council and was rejected, but with insignificant amendments. Therefore, the degree of its readiness can be defined as quite high.

The essence of this law lies in the fact that the government, simultaneously with the draft budget, will have to submit annually to the State Duma a register of blocks of shares assigned to the state, as well as a list of the types of activities, which are to be considered the most important and basic for Russia's economy. Subsequently, lists of enterprises, with respect to which the assignment of blocks of shares is retained or removed, are submitted for approval.

The significance of this law lies in the fact that it makes it possible to regulate the process of release of the blocks of shares under state ownership. It is important to see to it that in key sectors of the national economy this problem is solved properly. What do I have in mind? Today, owing to the fact that, unfortunately, the State Duma never approved the privatization program, in practice, the exclusive right to adopt decisions on the release of blocks of shares belongs to the government and, to a certain extent, to the president. It is difficult to agree with this, because, according to Russia's Constitution, the government only has the right to administer federal property, including blocks of shares. However, if it is a matter of sale, we deal with the disposal of these blocks, which cannot be placed within the competence of the government.

[Proklova] Sergey Vasilyevich, why is the problem concerning the release of blocks of shares solved legislatively?

[Burkov] Let us again turn to the Constitution. On the one hand, according to Article 71, issues concerning federal property are under the jurisdiction of the State Duma. On the other hand, federal laws are adopted on issues under the jurisdiction of the Russian Federation (Article 76). Consequently, the release of blocks of shares, for all practical purposes, of the majority of Russian enterprises should be based on a legislative solution. In connection with this I would like to stress that deputies by no means try to assume all the burdens of the adoption of decisions on the release and sale of shares of specific juridical persons. This is not within the competence of the State Duma. However, the Duma has every power for a principled "framework" solution, which is very important. In the present situation even the appearance of the president's edict, which retains the assignment of more than 3,000 blocks of shares of the largest Russian enterprises, is only a palliative. In essence, such a measure changes nothing. We remain in the same legal, or rather illegal, space. That is why there is a need for a law, which would establish a general procedure for the examination of the question concerning the release of blocks of shares and make it possible to guarantee the observance of strategic state interests. In this case abuses in the sphere of privatization (for example, such as the conversion—only by the directive of the State Committee on the Administration of State Property—of the ALKUR state holding into the ALKOR private joint-stock company) will be unequivocally evaluated as a violation of the law with all the ensuing consequences.

A direct relationship between the budget process and the solution of the problem concerning the release of blocks of shares is of fundamental importance, because the amount of revenues from privatization directly depends on this. I would like to mention that a procedure, according to which the privatization program must be approved one month before the budget, is established in the Law on Privatization (Article 3). This has not been fulfilled thus far. Now, in case of the adoption of the law "On Alienation of Blocks of Shares," the problem will be solved to a significant extent.

Another important factor. During the process of preparation of the document for the second reading numerous proposals by the Federation's components, in particular on a mandatory coordination of government decisions on the release of blocks of shares with them, were taken into consideration. This proposal is quite understandable and valid, because if it is a matter of the region's largest enterprises, tax revenues and the solution of the employment problem and of many social issues depend on them. Therefore, the draft law provides for appropriate powers.

The next draft law "On Trusteeship of Property" was adopted at the first reading. It makes it possible to accomplish a number of tasks. First, it gives juridical and natural persons, who know how to and can administer, the opportunity for trusteeship of state property. This problem is especially urgent, because the retention of blocks of shares of the largest enterprises in the hands of the state inevitably puts on the agenda the question of who will administer this property and how. The conversion of numerous enterprises into joint-stock companies, basically, has not brought changes in their management. As a rule, former managers, who by no means always are ready to adequately react to changes in the economic situation, have remained at the helm. If the law is adopted in the very near future, there will be an opportunity to change over to a scheme, in which under certain worked out conditions it will be possible to transfer blocks of shares assigned to the state, for example, to commercial banks for trusteeship. As a result, on the one hand, state property will be not abandoned, but regulated and on the basis of real economic interests. On the other hand, strategic state control over the development of basic national economic sectors will not be lost.

[Proklova] An impression is created that deputies rushed to adopt the draft law at the first reading before the beginning of the "parliamentary vacation." With what is this connected?

[Burkov] The situation is such that it is impossible to delay the adoption of the law. The process of transfer of property for administration is already going on little by little, secretly, and without prior arrangement. In practice, however, this leads to the fact that, instead of trusteeship, which today is only possible according to the Civil Code, it is a matter of the appearance of various forms of trust property. At the same time, as a result of the lack of legal guarantees, the owner loses his powers and state property, as before, is misappropriated and gets out of control. Moreover, the time has come to place obstacles to the irresponsible activity of various kinds of trust companies, which attract the population's funds. In brief, there is a great need for the appearance of the law, but until recently there has been no real possibility for this. I would like to recall that in the Duma there were two alternative drafts exactly opposite in their direction. One, "On Trust Property (Trusts)," was submitted by deputies Bunich, Golovlev, and Tomchin; the other, "On Trusteeship," by deputy Lisichkin, the Ivanovo legislative meeting, and me. None of them was adopted at the first reading. On the one hand, a significant number of deputies expressed nonacceptance of the very concept of trust as contradicting the Civil Code and violating the principle of nonsplitting of property. On the other hand, owing to tactical omissions (insignificant concessions to the opponents' position), our draft also was not adopted.

Today the situation has changed for the better. We have worked productively with representatives of Duma fractions, explained the crux of the matter to them, and were readily receptive to all constructive proposals. As a result, a unified draft law appeared, which successfully underwent the first reading. Owing to the fact that we managed to avoid this barrier before the beginning of the "Duma vacation," we get 2 months for work with amendments and we hope to get to the second reading as early as October. If the pace of the draft's passage is not disrupted and the law is put into effect before the end of the State Duma's term of office, an important step will be taken toward an increase in the efficiency of administration of state property, including state blocks of shares. The government will have a legislative basis for the realization of the proposal by the banking consortium.

Finally, another important draft law is connected with the introduction of amendments into the Law on Privatization. The State Duma accepted this draft in three readings and sent it to the Federation Council. More than 760 amendments were received, including 330 from subjects of legislative initiative. The largest number of proposals concerned the expansion of powers of the Federation's components in the implementation of privatization. Here it was necessary to observe a balance between the interests of local self-administration and the task of preserving a common economic space in Russia. As a result of discussions, it was possible to clearly determine which processes are regulated at the federal level. With respect to the privatization program, this is the setting of goals, priorities, and restrictions. Thereby, two tasks are accomplished. First, the possibility of introduction of additional restrictions on the part of local officials is ruled out. Second, the possibility of federal bodies to dictate what, when, and how to privatize and how to distribute revenues is ruled out.

Thus, the second article of the law states that the regulation of privatization will occur not only on the basis of federal laws, but also of normative acts of the Russian Federation's components. They can be laws on the administration and disposal of property (for example, kray or oblast property). They can be normative acts of local self-administration, which concern problems of the disposal of facilities under municipal ownership.

The third article establishes a procedure, according to which the State Duma, in conjunction with the budget, annually corrects the privatization program, introduces the necessary changes in it, and legalizes them in the form of a legislative act. Thereby, we compel the government to report to deputies on the results of privatization during the past year and get the opportunity to more efficiently approach the determination of one of the components of budget revenues.

Addenda to Article 9 concern the expansion of the category of juridical persons, who can participate in the privatization process. There were proposals to state in the law that juridical persons owning a share of state property in the authorized capital amounting to 25.5 percent and more cannot be buyers. Nevertheless, after some discussion a formulation passed, according to which those whose share comprises 25.5 percent can be buyers of the privatized property on the market. Possession of this share does not enable state representatives to actually block the decisions of private companies. Therefore, the fears expressed on this point were unnecessary. At the same time, the opportunity for such enterprises to participate in privatization will enable them to strengthen economic ties.

Nor should Article 11, which discusses sources of acquisition of state and municipal enterprises, be disregarded. It is supplemented with norms following from the statute on the procedure for the declaration of sources of funds used by juridical and natural persons when making payments for transactions involving the privatization of state and municipal property (government decree No 206 dated 27 February 1995). As a matter of fact, this is one of the cornerstones in legal support for privatization. Unfortunately, despite certain possibilities of controlling revenues used during privatization, in practice, nothing of the kind was or is being done. If government decrees are not enough, it means that it is necessary to affirm this decision legislatively.

[Proklova] There were big disputes around Article 17 in connection with the fixing of the initial price of an enterprise during privatization. What new things were introduced here?

[Burkov] Property funds were given the right, with due regard for existing market conditions, to adopt a decision on an increase in the initial price. This measure is aimed at stopping the widespread practice of disruptions of auctions and contests by means of an artificially overestimated selling price in the process of bidding and a subsequent refusal to conclude sale contracts.

If the amendments proposed in this draft law are summed up, two main provisions can be singled out. First, regions have been given the opportunity to adopt decisions on privatization with due regard for the economic situation formed in localities. Second, the State Duma has made another attempt, without violating the principle of separation of powers, to legislatively secure from the government an annual submission of the privatization program to the State Duma for consideration.

In conclusion I would like to note that, with all the significance of the problems solved by every draft law separately, they represent only individual aspects of a single global problem—property reform in Russia. Today, working out individual details of the general mechanism, we risk losing an integrated view of the direction, aims, and sense of the transformations being carried out. Realizing this danger, for more than 6 months we have been actively working on the law "On Disposal of Federal Property." The committee has already discussed the initial draft of the text, but it is still too early to talk about its content in detail. In any event, we intend to reflect in it fundamental problems concerning the change in the way of public life in Russia.

*State of Far East Power Industry Viewed

954F3156B Moscow SEGODNYA in Russian 11 Aug 95 p 2

[Article by L. Smirnova: "Far East Power Engineers Hold a Sad Conference"]

[FBIS Translated Text] **Chairman of the YeES Rossii Joint-Stock Company Provided Some Consolation**

A zonal conference of power engineers devoted to preparations for work under winter conditions in the Far East region was held yesterday in Vladivostok.

Vyacheslav Malich, general director of the Vostokenergo Unified Power Grid of the Far East, recalled the difficult conditions created because of the failure to pay their bills by consumers under which enterprises of Energo Joint-Stock Company had to conduct preparations for the heating season last year. Energy supply of the region was carried out under strained conditions and was made highly complicated by disruptions in the delivery of fuel which led to the imposition of rigid restrictions on the consumption of heat and electric energy and sometimes even compulsory stoppage of equipment at the electric power stations. Generation of electric power at Magadanenergo, for instance, was down 45 percent and it was only the timely assistance of the Kolyma GES [Hydroelectric Power Station] that made it possible to avoid an even greater tragedy on that occasion. Of the 61 energy enterprises in the region, eight proved not to be prepared for operation during the autumn-winter period. Most of the electric power stations in the region experienced an acute shortage of fuel.

The situation in the region last year with energy supply, however, judging by everything, could not only be repeated but could become even more serious. Again, because the complicated financial position of the energy systems, repair of equipment is lagging far behind schedule. Creation of fuel reserves at warehouses of the electric power stations is threatened with disruption. Some 2,094,000 tonnes of coal have been stored as of 1 August with the plan stipulating 4,031,000 tonnes.

Participants at the conference talked about the need to find internal reserves in order to get out of the situation that has formed. At the same time the presentations of representatives of the joint-stock companies, enterprises, and organizations of the fuel and energy complex voiced a familiar thought: isolated by thousands of kilometers, Moscow does not comprehend the entire depth of those problems being faced by the region, which are much more complicated in the Far East than they are at the center by the crisis phenomena within the economy, the high costs of transportation, electric power, and heat, and the systematic underfinancing of state programs in the region.

The Far East engineers proposed that the territorial administrations and YeES Rossiya Joint-Stock Company work out with the government the question concerning payment of debts for energy in the third quarter owed by insolvent government and budget organizations at the expense of the federal budget and also concerning allocation of the promised 1.3 trillion rubles [R] in credits for purchase of fuel (to this day only R500 billion has been allocated.

At the press conference after the conference, Oleg Britvin, vice president of the YeES Rossiya Joint-Stock Company, reported on the program of mutual interaction which was worked out between territorial administrations, the YeES Rossiya Joint-Stock Company, and the energy associations for the reliable supply of consumers. In particular he informed the journalists about a basic agreement that was reached with Yakutenergo regarding the generation of additional energy for Primorsk Kray, the largest structural subdivision of the energy grid.

*Decree, Comment on Licensing Geological Work, Mineral Use

954E1278A Moscow ROSSIYSKAYA GAZETA in Russian 17 Aug 95 p 5

[Decree No. 775 of the Government of the Russian Federation dated 31 July 1995 On Adoption of the Regulation on Licensing of Individual Forms of Activity Connected With Geological Study and Use of Mineral Resources]

[FBIS Translated Text] The Government of the Russian Federation decrees as follows:

Adopt the proposed regulation on licensing of individual forms of activity connected with geological study and use of mineral resources. (not published).

[Signed] V. Chernomyrdin, chairman of the Government of the Russian Federation

*Gold Mining Company Changes Financial Policy

954E1282A Moscow KOMMERSANT-DAILY in Russian 15 Aug 95 p 9

[Article by P. Ivanov: "Finance Service Consolidated With Foreign Specialists"]

[FBIS Translated Text] **A session of the board of directors of Lenzoloto Joint-Stock Company—holder of a license for the development of Sukhoy Log, the largest gold deposit in the world—was held at the end of July at Bodaybo (Irkutsk Oblast). The board satisfied a request from Valeriy Avlov, general secretary of the joint-stock company, seeking a leave of absence with subsequent resignation. Mr. Avlov's duties will be performed until the meeting of shareholders scheduled for 6 October by Mr. Kochetkov, his first deputy.**

The Lenzoloto Joint-Stock Company has for a number of years been facing conflicts and arbitration procedures connected with Sukhoy Log, the largest unworked gold deposit in the world. Several foreign companies fought for the right to work that deposit, and those doing so most actively included RTZ (Britain) and Star Mining (Australia). In the end the Australian company emerged victorious. The conflict, however, did not end with that, and a compromise solution was apparently found only in the autumn of last year. The government decree on assimilation of the Sukhoy Log gold deposit in Irkutsk Oblast was to have satisfied the greatest number of those involved in the conflict. For instance, that document removed one of the main problems facing Star mining. The Australian company could start the financing of the development only after the geological information classified secret was declassified. The decree directed the

Ministry of Economy, the Roskomdragmet [State Committee on Precious Metals and Precious Stones], and FSK [Federal Counterintelligence Service] to ensure access to geological information for specialists "acting at the behest of the shareholders, participating in the development, on the basis of the licensing agreement regarding mining rights." The secret classification, however, was not removed, as a result of which preparation of the TEO [technical and economic substantiation] could not begin.

By that time differences developed among shareholders of the Lenzoloto Joint-Stock Company. The Australian partner, who was partially financing the joint-stock company, quite justifiably wanted to have control over its expenditures. The Russian side, however, reproached the foreign investors for not having fully completed their financial obligations and failing to list the promised funds in full. The analysis discussed two possible solutions to the situation that developed. In accordance with the first one it would be necessary to change the financial policy of the leadership at Lenzoloto Joint-Stock Company or replace the leadership itself. The second possibility envisaged limiting the holdings of the Australian company to shares already purchased (around 50 percent of the planned holdings by Star Mining) with the remaining portion to be sold to another foreign investor.

In the end the board of directors decided to adopt the first solution. Valeriy Avlov, the general director, submitted a request for leave of absence with subsequent resignation for health reasons. The duties of the general director will be temporarily performed until the meeting of shareholders planned for 6 October, by his first deputy and comrade in arms, Mr. Kochetkov. Bogdan Kokot was elected financial director of the Lenzoloto Joint-Stock Company and its first deputy general director. Michael Bates became head of the mining subdivision of the company. Previously he had worked in the Canadian Division of RTZ, and in December of last year came to work for Star Mining.

The board of directors likewise made changes in the order in which the finance committee was to be formed. It will be formed on the recommendation of members of the board of directors of the Lenzoloto Joint-Stock Company, out of competent specialists. Messrs. Weinberg, Price, and Williams were appointed members of the finance committee. Mr. Weinberg noted that Lenzoloto Joint-Stock Company, like all enterprises in the gold mining branch, is currently experiencing some difficult times. In his opinion, however, the joint-stock company has been lucky since it is being supported by its Australian partner. The main problem of the enterprise, however, according to Mr. Weinberg, is the lack of any guaranteed sales of gold.

*Bank To Become Consultant to Metallurgical Combine

954E1286A Moscow KOMMERSANT-DAILY in Russian 16 Aug 95 p 5

[Article by Tatyana Tyumeneva: "The Metallurgists Have Found Support From Bankers"]

[FBIS Translated Text] **It is possible that the Zapadno-Sibirskiy Metallurgical Combine AO, with the aid of the Siberian Trade Bank (Novosibirsk) will soon be able to protect themselves against uninvited stockholders.**

The Register Is a Very Insidious Subject: Now It Is and Now It Isn't

The shares of the Zapadno-Sibirskiy Metallurgical Combine AO [Joint-Stock Company] (ZapSib) attracted the attention of operators of the Russian stock exchange for almost the first time, in May of this year. It was then that the AO announced the payment of dividends amounting to 600 percent annually. At about this time, three financial brokers —Absolyut-Invest (Moscow), Sibinvest (Kemerovo) and the Narodnaya Finansovo-Investitsionnaya Kompaniya (Moscow) — started buying up shares in the combine. Almost immediately after this, the stock quotations doubled — from 30,000 to 70,000 rubles [R]. There is so far no unequivocal answer to the question of precisely which one of the major investors was interested in ZapSib. In the words of the combine's deputy general director, representatives of the Absolyut-Invest Company, in a private conversation with him, gave him to understand that Menatep stood behind them. There are so far, however, no facts to confirm this version. There are rumors going around the market that Mikrodin is showing interest in the combine, and moreover, it has already succeeded in gathering a bundle of about 10 percent of the enterprise shares.

In response to such an active buying up of shares, the ZapSib management closed the register of stockholders, which the combine had kept independently, contrary to the president's edict. An appeal of the board of directors was prepared and disseminated. It contained the proposal that speculative broker games around the shares of the enterprise not be permitted and that the shares of the Zapadno-Sibirskaya Investment Company and the combine's branch organizations be sold. An appeal to the members of the work collective said: "By selling the shares to other financial companies, you will put ZapSib into the hands of Moscow firms and companies, making the ZapSib workers and inhabitants of Novokuznetsk hostages to their interests and turning the Kuzbass into a Moscow colony or a foreign colony" (the newspaper KUZNETSKIY RABOCHIY, 24 June).

Moreover, in conjunction with the trade union council, the combine's board of directors passed a resolution, the essence of which amounted to the fact that the workers of the combine, having sold their shares to outsiders, were deprived of certain material blessings. It was a question of abolishing the privileges of obtaining housing, land plots, sanatorium-health resort vacations, rewards for length of service and lump-sum grants upon retiring on pension.

Anatoliy Reutov, deputy general director of ZapSib, in an interview with a KD correspondent, explained that the combine register had been closed to protect the interests of the stockholders. The combine's practical work of operations with securities, in his words, showed that there was a good possibility of falsifying the signature of the seller of the shares (5 criminal actions are presently being brought for illegal operations with the shares of the ZSMK AO). The fact that the shares were not issued on paper, and the certificates (copied from the register) were unprotected, also contributed to this. As for the system of encouraging the shareholders, Mr Reutov noted that the management of the combine itself had the right to choose which privileges to offer them.

In explaining why the combine was taking measures for protection against having "Moscow and foreign stock-speculators" buy up its shares, Mr Reutov was not without justification in noting that buying up shares by no means always results in investments in production. The ZapSib board of directors does not intend to lose control of the combine until a major, strategic investor arrives to take on the fulfillment of the combine's investment program. A bundle of shares amounting to 15 percent of the charter capital, and a minimum investment volume of $250 million, will be put forth for the investment competition.

Sibtorgbank Will Fight for the Interests of the Combine

At present, the situation with respect to buying up the combine's securities remains, as before, strained. Shares of the AO with a face value of R1,000 are being purchased by the ZSMK branch financial company at R60,000, and by foreign brokers at R70,000. The population buys 1,500-2,000 shares a day. In all, the enterprise has about 53,000 stockholders, and moreover, about half of the shares bought at an all-Russian auction reside outside Novokuznetsk. The company's charter capital is therefore scattered among small-scale investors. It is impossible to count the number of shares which are not under the control of the management, since the register of stockholders is closed, and transactions are not confirmed by the appropriate copies from the register.

Dynamics of the Shares Quotations of the Zapadno-Sibirskiy Metallurgical Combine AO

date	Share Quotation
5 July	11.67
10 July	12.43
15 July	13.05
20 July	13.8
25 July	14.17
1 Aug	13.8
5 Aug	14.47
10 Aug	15.47
14 Aug	17.0

Today ZapSib has no funds to continue buying up its own shares. The management, however, sees no reason for worry. The Siberian Trade Bank (ZapSib is a shareholder in it) is interested in the enterprise. Sibtorgbank is offering the enterprise two variants of stabilizing the situation with respect to buying up shares. Negotiations are now in the concluding stage. However, regardless of the coming decision, the register of AO stockholders will be turned over to Sibtorgbank. According to preliminary data, work with the combine's shares on a secondary market will be carried out using the bank's money through the Zapadno-Sibirskaya Investment Company. It is also suggested that the bank help ZapSib find a strategic investor.

Roundup on Latest Oil Business Developments

954F3096A Moscow SEGODNYA in Russian 8 Aug 95 p 9

[Article signed ANI: "News of the Oil Business"]

[FBIS Translated Text]

Prirazlomnoye Can Be Developed Under Product Separation Conditions

The Russian Company for Shelf Development Rosshelf, the Regional Joint Stock Company (RAO) Gazprom, and the Australian Company BHP Petroleum expect to begin in September-October of this year the working out of an agreement concerning product separation in the development of the Prirazlomnoye oil deposit on the Pechora Basin shelf of the Barents Sea, a representative of the Rosshelf management has reported. In his words, the Russian Federation government during August and the beginning of September must organize a special commission to prepare an agreement and to conduct negotiations on the Russian side, the membership of which will be appointed by the appropriate decree. At the present moment the technical section of the project has been prepared in full and its technical and economic feasibility study (TEO) was approved in March of this year by a Gazprom expert review commission. BHP Petroleum has previously acted in this project as a partner of Rosshelf in carrying out exploratory drilling and developing a TEO on the basis of an agreement concerning cooperation in the joint development (osvoyeniye) of Prirazlomonye.

The tentative cost of the project is estimated at approximately $1.5 billion, of which outlays for site preparation will come to about $1.1 billion. At the same time it is anticipated that the sale of the oil produced will permit the receipt of $10-12 billion. According to preliminary data, Gazprom and BHP Petroleum will furnish 15 percent of the total volume of investements in the project each, 40 percent will be financed through loans from the International Finance Corporation and the European Bank for Reconstruction and Development (EBRR), and the remaining capital investment will be obtained in the form of loans from other foreign and Russian banks. It is planned to achieve the maximum production volume at Prirazlomnoye (5.8 million tonnes a year) in the third year after the first oil is produced. Industrial oil production at this deposit may begin already in 1998. The proposal is to produce from 57 to 62 million tonnes of oil all told.

The Prirazlomnoye oil deposit was discovered by the Russian association Arktikmorneftegazrazvedka in the Barents Sea in 1989. It is located 60 kilometers from the coast line. The depth of the sea is 18-20 meters and the depth of the pools of hydrocarbonaceous reserves is 2,300 meters.

The Participants in the Sakhalin-3 Project Hope to Conclude Negotiations in Autumn

Russia and the American companies Exxon, Texaco, and Mobil Oil possibly already in September-October of this year will sign an agreement with respect to the Sakhalin-3 project concerning the development of the deposits of the Vostochno-Odoptinskiy segment of the Sakhalin shelf, a member of the Russian delegation at the negotiations, a regular round of which has concluded this week in Moscow, has reported. In his words, "the participants in the negotiations hope by then to have the entire package of documents ready for signing." In commenting on the results of past discussions, he stated that "the parties have achieved agreement on many questions, among other things as regards the tax on profit and the mechanism for recompensing an investor's outlays for carrying out exploratory drilling before the agreement enters into force." In January 1995 Mobil Oil signed an agreement with the Sakhalinmorneftegaz association about starting drilling in the contract zone. Texaco and Exxon later joined this agreement.

In the question of recompensing an investor's outlays, Moscow has stuck to a "firm position," according to which it will take place by means of "compensatory oil" (the portion of the oil produced going to the amortization of expenditures) only when the project is implemented. However, if the draft agreement doesn't enter into force, Russia will not take on itself financial obligations with respect to recompensing these expenditures of the companies. At the same time both the Russian and the American sides have expressed confidence that the law "On Agreements Concerning Product Separation" will be adopted and the question of "the two dates—of signing and of entering into force—will not be covered."

Moreover, in the course of the negotiations the parties have finally come to an agreement about the tax on profit from an investor, having assigned in the agreement a rate of 35 percent (instead of the previous 32 percent), which corresponds to the provisions of the draft law "On Agreements Concerning Product Separation." As has become known, the parties intend to consider the "remaining financial package" at the next meeting, which is planned for the end of August. This package includes the royalty problem (the tax for the right to recover minerals) and the arrangement for separating product when exploiting the deposits.

The contract zone in the Sakhalin-3 project encompasses three segments with an area of about 15,000 square kilometers. Mobil Oil and Texaco, having invested $151 million, intend to participate in the exploration of the first segment. The Exxon company, which intends to invest more than $300 million, will develop the second and third segments.

The Time Limits for Entering a Tender in Krasnoyarsk Kray Have Been Extended by One Month

The Russian Federation Committee for Geology and the Use of Mineral Resources (Roskomnedra) together with the administrations of Krasnoyarsk Kray and the Evenki Autonomous Okrug (Eastern Siberia) have adopted a decision concerning the extension by one month of the time periods for conducting an international competition regarding seven oil- and gasbearing blocks in Evenkia. This was announced at a meeting of the expert review commission that is part of Roskomnedra and representatives of the administrations. The previously established time periods envisaged completion of the acceptance of applications prior to 1 August of this year. Totalling the results was planned for January-February of next year. As they announced in the joint American-Russian enterprise MD-SEIS, which is the administrator of the tender, extension of the time periods is to be accounted for by the "small number of applications," received from Russian companies. At the same time, they have elaborated in MD-SEIS, western companies have not submitted a single official application up to this point.

Total geological reserves of category C1+C3 hydrocarbonaceous raw material at the seven segments comes to 2.5 billion tonnes of oil, 1.2 trillion cubic meters of natural gas, and more than 130 million tonnes of condensate: recoverable reserves—780 million tonnes of oil, 1.2 trillion cubic meters of gas and 80 million tonnes of condensate.

The Project for the Modernization of the Orsk Oil Refining Plant is Included in Exim Bank's Credit Line.

The government of Russia has decided to include a credit from the German bank Kreditansehtalt fuer Wiederanfbau (Frankfurt) in the amount of DM70 million in the credit line of the Exim Bank (USA) for financing the construction of a catalytic reforming unit at the Orsk Oil Refining Plant (Orenburg Oblast). An agreement between the Russian government and the Exim Bank with respect to credits directed to the development of Russia's oil complex in the amount of $1.4 billion was signed in 1993. In this case the basic portion of the funds is to be used for the purchase of equipment in the USA. The total cost of the project for the construction of a complex intended for the production of high-octane gasoline is estimated at $120 million. Production of the type of product in question will be carried out on the basis of a license from the American Universal Oil Products and the delivery of the equipment and its installation by the German concern Mannesmann. The project's TEO was developed by Walk, Haydel & Associates, Inc. (USA).

According to the TEO, this complex with a capacity of one million tonnes of oil a year will permit production of gasoline with an octane number of 108, which was not produced in Russia until now. According to the estimates of the American experts, the project's payback period will come to five to six years. Currently the Orsk Oil Refining Plant operates two catalytic reforming units having a capacity of 600,000 tonnes which "are obsolete and worn-out." "The technology in use does not permit one to produce unleaded high-octane gasoline in the amounts needed and of the quality required," the plant's representative has declared. The Orsk Oil Refining Plant refined 2.2 million tonnes of oil in January-June of this year.

The First Cut of Khanty-Mansiysk Autonomous Okrug's Bonded Debt Has Redeemed in a Day

The Joint-Stock Bank Tyumenskiy kredit (Tyumen), on behalf of the administration of the Khanty-Mansiysk Autonomous Okrug, on 27 July placed the first cut (transh) of the bonded debt in the amount of 5 billion rubles, which was redeemed in a single day. The okrug'sadministration has proposed directing the funds from the sale of the bonds to the development of the okrug's social and economic programs. As they have announced in the local administration, "the number of applications has far exceeded the volume of bonds being offered." The sources of the information have not been able to substantiate who redeemed the bonds; however, they have noted that it was planned to place the securities only among legal entities. It is proposed to place the second cut in the amount of R10 billion within three months. The issuance of a bonded debt in the amount of R50 billion was registered in the Russian Federation Ministry of Finance on 20 July. The face value of a single bond is R100,000.

Customs Approves the Rules for Exporting Oil for Refining

The State Customs Committee (GTK) of Russia has approved the "Statute on the Procedure for the Customs Registration for the Export of Oil for Refining Beyond the Bounds of the Customs Territory of the Russian Federation by Pipeline Transport." A source in the Russian GTK has reported this. In his words, henceforth to obtain a license for the export of customer-supplied oil (davalcheskaya neft) Russian oil refining enterprises or oil refining companies need to submit to the customs organs their own application and the authorization of the Ministry of Fuel and Energy, which concurs with the inclusion of the lot of oil in question in the pumping schedule of the Transneft company for the following month. All the oil being exported, with the exception of instances especially stipulated in the enforceable enactments of the GTK, is liable to export customs duties. According to the statute that has been approved, the customs duties are to be returned to the payer in a period of one month after its application and not earlier than the return of all petroleum products to the customs territory of Russia. In this case the time for the return of the petroleum products has been set at no more than six months from the date of the customs registration of the lot of oil for export.

According to Russian Federation State Customs Committee data, in 1994 Russia exported about 129.8 million tonnes of oil for the sum of $11.3 billion. Of them, 14.4 million tonnes were exported for refining. About 10.2 million tonnes of the refined oil was not returned back to Russia.

Russian Export of Chemical Products Has Exceeded $2 Billion

The volume of the export deliveries of Russia's chemical enterprises in the first six months of 1995 has amounted to $2.25 billion. As they reported in the Russian Federation Committee on the Chemical and Petrochemical Industry (Roskomkhimneftеprom), the amount in question exceeds the indicators of the analogous period of 1994 by more than 150 percent. According to Roskomkhimneftеprom data, the greater part of Russian chemical exports in the first six months of 1995 consisted of agrochemical products, including mineral fertilizers (36.9 percent of the total volume), ammonia gas (10.5 percent) and methanol (6.2 percent). Deliveries of plastics (polyethelyne, polyvinyl chloride, and copolymers) as well as of chemical filaments and fibers (primarily viscose) predominated in exports of chemical goods. Among petrochemical products synthetic rubber, as well as a number of organic products (xylene, styrene, and phenols), enjoyed especial demand abroad.

The European countries, including Switzerland, Finland and Germany (27 percent of exports), as well as the countries of Asia (about 20 percent), remained the basic foreign consumers of the products of the Russian Federation's chemical complex. The share of the countries of the American continent, basically the USA, came to about 10 percent. In the opinion of experts, the strengthening of the positions of Russian exporters on the world market is due to a favorable market situation as well as to the coordination of their activities within the framework of sector unions (Agrokhimsoyuz [not further identified], the Union of Potassium Producers).

Varyeganneftegaz Hopes for the Extension of Benefits When the International Bank for Reconstructin and Development (MBRR) Loan is Used

The oil and gas producing association Varyeganneftegaz hopes that the government will extend for it the operation of benefits in the using up of the first rehabilitation oil loan of the MBRR, a representative of the association has reported. Within the framework of the MBRR oil loan Varyeganneftegaz was allocated a credit of $170 million in 1993 for the purchase of equipment and the conducting of operations to raise the level of oil production. At the same time the enterprise was exempted from the payment of customs duties on the equipment being imported, the value-added tax, and the special tax. However, the enforceable enactments which were issued at the end of last and the beginning of the current year (presidential edicts No. 1199 and No. 2018 and federal law No. 31-F3) cancel all previously granted benefits, including those within the framework of the MBRR credit. "We hope that the government will meet us half-way and by its own decree extend the preferential terms for the using of the rehabilitation loan. Otherwise, implementation of the project may be stopped short and the enterprise will find itself in difficult financial circumstances," a representative of the oil and gas producing association has emphasized. In particular, the imposition of customs duties for imported equipment, the value-added tax, and the special tax will require the payment of about $35 million from the enterprise, which amounts to approximately 20 percent of the amount of the credit. Today Varyeganneftegaz has used up about $91 million of the credit and the signing of a number of contracts worth $72 million more is imminent.

According to the estimates of independent experts, a similar situation is also developing at other enterprises implementing the MBRR loan. Thus, because of changes in taxation, the Purneftegaz association was compelled to discontinue using the loan. An agreement with the MBRR concerning a loan for the Russian oil industry in the amount of $610 million was signed in August 1993 on behalf of Russia by the country's Ministry of Finance and Ministry of Fuel and Power. The oil and gas producing enterprises Kogalymneftegaz ($272 million), Purneftegaz ($168 million) and Varyeganneftegaz ($170 million) have participated in using it.

Purneftegaz is Introducing International Type Financial Documentation

The Russian oil and gas producing association AO (joint-stock company) Purneftegaz has become the first oil enterprise in Russia which has completely brought its financial documentation into compliance with international standards, the management of the joint-stock company has reported. A Purneftegaz presentation made in London and New York was devoted to this event. It was organized by the Price Waterhouse company which is the association's auditor. In the words of a source in the management of Purneftegaz, the campaign conducted by Price Waterhouse to bring the accounting documents of the oil complex into compliance with the standards of international non-exchange markets will permit

Purneftegaz to place its shares on the West's stock markets. Moreover, he noted, the recent "international audit of the enterprise contributed to the growth in the value of its shares on the domestic market."

However, some Russian experts think that the fluctuations of the value of shares both on the domestic and the foreign stock markets does not depend on the conducting of audits at oil- and gas-producing enterprises. An international audit "can only partially influence the magnitudes of the absolute value of the shares." At the same time representatives of international financial consulting firms are confident that only thanks to the conducting of an international audit can the oil enterprises count "on trust on the part of the financial groups of the West." The price of the shares of Purneftegaz, the volume of whose output came to more than eight million tonnes of oil in 1994, has increased from $2.3 to $2.95 on average on the Moscow stock market during the last six months.

The Process of Forming Oil Companies Will Be Concluded in the Near Future

In the near future the government of the Russian Federation will finally approve the structure of the key Russian oil companies, which will permit one to start to prepare for the sale of their shares at money auctions. As the chairman of the Russian Federation State Committee on the Administration of State Property (GKI) Sergey Belyayev has reported, draft decrees regarding forming the structure of the LUKoyl, YuKOS, SIDANKO and ONAKO companies have already been sent to the Russian Federation government and should be signed by Premier Viktor Chernomyrdin. In the words of S. Belyayev, "if the government decides to approve the composition of each company individually, the first decree can be published this week already. If the Premier decides to sign all the decrees simultaneously, then about two or three weeks will be spent on various approvals." In the opinion of the head of the State Committee on the Administration of State Property, this delay is connected with the improvement of the structure of the state enterprise Rosneft, which it is proposed to convert into a joint-stock company. S. Belyayev has emphasized that the basic problem in forming Rosneft's structure is that blocks [of shares] of more than 100 scientific organizations were in its control.

At the present time, in the words of the GKI chairman, various positions exist with respect to the forming of the Rosneft company. Among them, in particular, is a proposal to remove the scientific centers from the structure of Rosneft and to form a single scientific oil center which will be financed by all the oil companies. The state enterprise Rosneft should be converted into an open-type joint-stock company on the basis of presidential edict No. 327 of 1 April 1995 "On Priority Measures for Improving the Work of Oil Companies." According to it, the Russian government was instructed to determine the final list of the enterprises entering into the structure of Rosneft.

Gazprom Lays Claim to the Controlling Block of the Shares of Two Astrakhan Oblast Enterprises

However, Russia's gas industry, which also lays claim to oil producing enterprises, can also be connected up to the repartition of the oil industry. Thus, RAO Gazprom has appealed to the government with a proposal to hand over to it in principal (doveritelnoye) control the controlling block of the shares of AO Astrakhanneft (it is part of the State Enterprise Rosneft) and Astrakhannefteprodukt (a regional enterprise for the sale of petroleum products), sources in the government have reported. RAO Gazprom justifies its proposal by the fact that at the given moment up to 90 percent of Astrakhan Oblast's need for motor fuels is supplied through the petroleum products which the Astrakhan Petrochemical Complex, which is part of Gazprom, delivers to Astrakhannefteprodukt.

As government sources have reported, Astrakhanneft, Astrakhannefteprodukt, and the administration of Astrakhan Oblast support RAO Gazprom's initiative. Previously, it was planned to transfer the controlling bloc of the shares of these enterprises, which had been assigned to federal ownership under the control of the Rosneft State Enterprise, to the LUKoyl oil company on the basis of Russian president's edict No. 327 "On Priority Measures for Improving the Work of Oil Companies."

Russia and Kazakhstan Will Possibly Create a Single Oil Company

Russia and Kazakhstan are considering a project for creating a single integrated Russia-Kazakhstan oil company, well-informed sources in Moscow and Alma-Ata have reported. According to their information, the company may be created through amalgamation of the Kazakhstan Oil Producing Company Aktyubinskmunaygaz (AMG) and the Russian ONAKO (Orenburg Oil Joint-Stock Company), which is the initiator of this idea. The project for amalgamating the two companies has developed in connection with the fact that the government of Kazakhstan plans to sell about 20 percent of the shares of AMG at an investment competition in September-October 1995 and the Russian government up to 40 percent of the shares of the ONAKO joint-stock company. Meanwhile, in the opinion of experts, these two companies have close industrial and financial relationships and the uncoordinated sale of their shares may lead to the "uncoordinated privatization of the Kazakhstan and Russian portions of an essentially single international oil complex." According to ONAKO management's proposal, the government of Russia should increase the company's charter capital, having provided for the entry of the government of Kazakhstan into it as a co-founder. In payment of its share Kazakhstan is to put 38 percent of the shares of the Aktyubinskmunygaz joint-stock company into the company's charter capital.

Currently the charter capital of ONAKO consists of 38 percent blocks of the shares of the Russian enterprises Orenburgneft, Orenburgnefteprodukt, and Orsknefteorgsintez. In 1 July 1992 prices it comes to R1,829,701,000. According to the privatization plan AMG's charter capital comes to R98,904,258,000. However, according to ONAKO's data, Aktyubinskmunaygaz's property is valued at R1,483,955,000 in July 1992 prices. Accordingly, ONAKO's charter capital will be increased to R2,393,604,000 as a result of the addition of AMG and the share of the Kazakhstan side will come to 23.56 percent of the new amount of the charter capital. Some 25 percent of the AMG shares out of the number left at the disposal of Kazakhstan are to receive the status of privileged, the same as the corresponding portions of the shares of the Russian companies that are part of ONAKO. At the decision of the Kazakhstan government these 25 percent can be sold at investment auctions or competitions. Furthermore, Kazakhstan is to receive 563,903 shares of ONAKO (23.56 percent of the charter capital) which also can be sold. ONAKO proposes also to include three representatives of the Kazakhstan side in the composition of an 11-person council of directors.

The ONAKO oil company was created by decision of the Russian government in the middle of June 1994. It included the oil-producing enterprise Orenburgneft, the oil-refining joint-stock company Orsknefteorgsintez and the sales enterprise Orenburgnefteprodukt. The Aktyubinskmunaygaz joint-stock company is part of the Kazakhstan state holding company Munaygaz.

The World Bank is Studying a Project for the Construction of the Surtan Gas-Chemical Complex in Uzbekistan

The World Bank is engaged in a detailed financial and economic study of a project for the construction in Uzbekistan of the Surtan Gas-Chemical Polymer Materials Complex at an approximate cost of $120 million. As bank representatives in Tashkent have reported, it is proposed that the complex will be located in one of the largest gas deposits in the republic in Surtan (Surkhan-Darya Oblast). The construction, the time periods of which have not yet been determined, will proceed in two sections, the putting on line of each of which will permit one to produce up to 120,000 tonnes of polymer materials annually. As representatives of the state joint-stock company Uzneftegasdobycha have reported, the gas-chemical complex project will be integrated with the construction of the Surtan Compressed Natural Gas Complex which is already underway. The first section of the complex with a capacity of 60,000 tons of compressed gas a year will go on line in August of this year. Three sections of the complex, each with a capacity of 60,000 tonnes of compressed gas a year, will be built in Surtan all told.

There is currently no enterprise of the oil and gas chemical industry in Uzbekistan. All the natural gas produced in the republic is used in the form of fuel and goes partly for export. Some 47 billion cubic meters of natural gas were produced in the republic in 1994. According to the estimates of experts, 50 billion cubic meters will be produced this year and by the year 2000 production will reach 60 billion cubic meters. According to the data of the experts of the World Bank, in the next two years the need of Uzbekistan's fuel and power complex for investments comes to $1 billion. The development of the Kokdumalak oil deposit at a cost of $170 million and of the Mingbulak at a cost of $40 million are the republic's most important projects in this industry. In addition, $60 million will be invested in the Mubarek group of oil and gas deposits and $160 million in the construction of the Bukhara Oil Refining Plant.

*Oil Industry Status, Dynamics, Prospects Viewed

954E1316A Moscow ROSSIYSKAYA GAZETA (Biznes v Rossii supplement) in Russian 25 Aug 95 p 15

[Article by Yevgeniy Aleksandrov and Valentin Medvedev, lead associate of the "Sobolev" Consulting Agency: "Oil—This Word Means a Great Deal"]

[FBIS Translated Text] **Crude oil has been and continues to be Russia's principal commodity in the foreign market. It now accounts for 17.8 percent of foreign exchange earnings.**

Administration

We have observed a noticeable upsurge in business activity associated with Russia's petroleum complex lately. At the beginning of July, managers of Russia's major oil companies signed a "Declaration on the inadmissibility of monopolist activity and unfair competition by oil companies."

Participants in the agreement, including such monsters as the "LUKoyl" NK, "Sidanko," "Surgutneftegaz," "Slavneft," "Transneft," "YUKOS," "Transnefteprodukt," and the "Rosneft" state enterprise, agreed in particular not to impede penetration and access by other economic entities to the regional oil and petroleum product markets and not to create obstacles and restrictions for third parties in the use of storage facilities and other parts of the infrastructure when unused capacities are available, as well as not to conclude agreements which enable a small group of companies to occupy the position of a monopoly in the oil market.

Proposals by the "Siberian Contract" interregional association to transfer for their management up to 50 percent of the state's block of shares in oil companies and enterprises operating in their territory are now under discussion as well; they are aimed at combating criminal elements which are attempting to dictate their own conditions in the stock market and take control of the most profitable export sector in Russia's economy—oil.

Legislation

In addition, in order to form a civilized market for oil and petroleum products, certain steps have been taken in the legislative field as well. A number of changes in Russian Federation laws should promote the creation of more attractive conditions for foreign investors in the petroleum sector. For example, in the Law "On mineral resources," there is a very important provision on stable conditions for a license over the entire period it is in effect; this substantially increases legal protection for the investor. Certain provisions of the draft law "On oil and gas" are now being improved. The State Duma has adopted (but so far the Federation Council has not adopted) the draft law "On agreements to share output," which enables the state to retain the right of ownership of mineral resources and extracted minerals, with part of the profit received to be transferred to the investor as payment for work performed. In this case he is relieved of the responsibility of paying all the taxes, except for the tax on profit and royalties.

At the same time, there are also certain negative factors associated with the adoption in April of the Law "On the continental shelf." It was drafted without taking into account the draft law "On oil and gas" which was adopted in the first reading and without connection with the draft law "On agreements to share output." It may turn out to be quite inconvenient for an investor when the four laws cited are applied at once to relationships taking shape on the limits of the continental shelf. This will lead to legal confusion.

Oil is now one of the mainstays which support the Russian economy, although the volumes extracted, which reached a peak in 1988 (11.4 million barrels daily) have begun to decline sharply; the average volume now is about 8.1 million barrels. In the words of Vitaliy Bushuyev, the deputy minister of fuel and energy, of the 2,000 oil fields available, only half are being developed, and in addition, about 40,000 of the oil wells already in operation are standing idle.

Extraction

From January to June 1995, 158 million metric tons of petroleum, including gas condensate, were extracted by enterprises in the oil drilling industry; this is 2 percent less than in the same period last year. The primary reason for the decline in oil extraction was the decrease in effective demand within Russia and in CIS countries. Because of this, the capacities of oil fields were underutilized by 2.2 million metric tons.

As a whole, eight of the 20 oil companies and state enterprises of the Ministry of Fuel and Energy increased their extraction of oil in the January-June period. A more substantial increase was achieved by the "Tatneft" Joint-Stock Company—16 percent, as well as the "Gazprom" RAO [Russian Joint-Stock Company] with 13 percent, and "Okako" with 2 percent. At the same time, the "LUKoyl," "YUKOS," "Komi-Tek," and "Sidanko" companies reduced their extraction somewhat—by 5 to 15 percent. Oil extraction increased by 38 percent in joint ventures with participation by Russian and foreign capital. The proportion of these ventures, basically oriented toward oil exports, increased from 3.1 to 4.4 percent in the total volume extracted.

The situation in the oil industry is complicated by the fact that capacities break down three timnes faster than new ones are introduced, and half of the technical facilities are more than half worn out. In the words of Vladimir Medvedev, president of the Union of Oil Industrialists, if the current rates of extracting the reserves explored are maintained, taking the sector's present level of technical support into account, there will be enough oil for just 13 to 20 years. The extraction recession continuing in Russia was caused by deterioration of the raw material base, the investment crisis, and the strict financial and monetary policy of the government (more than 60 percent of oil drillers' income goes to pay taxes). Although the oil industry's production is characterized by a high level of profitability and liquidity, the financial crisis has the sector by the throat, as they say. A substantial part of the output consumed by the oil complex is bought within the country at world prices. At a time when the price for oil in Russia today is lagging behind the level of world prices.

The Russian Government decree of 26 July "On establishing differentiated excise tax rates for oil extracted in the Russian Federation's territory" has not improved the situation, either; in accordance with the decree, new excise tax rates were to be introduced, but on 1 June, that is, retroactively. In world legislative practice there is a principle that a law has no retroactive force, but Russia, as always, follows its own path. In the opinion of most managers in the sector, the excise tax rates do not reflect enterprises' operating conditions and not only do not contribute to neutralization of the starting conditions, but intensify the differences. Those whose new excise tax rate is higher than the old one will rush about searching for additional funds, and it is hard for the others to expect overpaid taxes to be returned to them.

Another negative factor is the decline in the dollar's exchange rate in relation to the Russian ruble, which may thoroughly undermine the sector's export potential and lead to a decrease in the amount of oil extracted.

In spite of all this, structural reforms have been actively under way in the sector lately. In particular, an agreement was signed recently between Tatarstan and Nizhegorod Oblast establishing the "Volga-Oyl" financial-industrial petroleum group (based on "Tatneft" and "NORSI-oyl"). It provides for unified technological ties and steady deliveries of oil and petroleum products to markets in the Russian Federation and other countries.

Investments

For foreign investors, Russia today is a kind of "terra incognita" where tempting opportunities are combined with tremendous risk.

Western oil companies are interested most of all now in the fate of the Russian law on shared distribution of output and the law on concessions which is related to it. They have already held negotiations on the conclusion of 12 contracts to extract oil in Russia under the conditions of shared output. In the event that they are concluded, about $60 billion will be invested to develop oil fields in Western Siberia, the Timan-Pechora basin, and the Sakhalin shelf, according to certain data.

One more step ahead was taken recently in relations between the Export-Import Bank of the United States and the Central Bank of Russia; they finally resolved the inconsistencies which arose in the process of preparing credits in accordance with the agreement on oil signed by the American bank and Russian departments in July 1993. The arrangements reached will enable the enterprises of five oil drilling companies ("Nizhnevartovskneftegaz," "Permneft," "Tatneft," "Chernogorneft," and "Tomskneft") to begin deliveries of oil within the framework of the Eximbank's credit programs.

Major Western oil companies are showing considerable interest in the competition for the right to explore for and develop oil deposits in the central part of the Khorey-Ver depression in the Timan-Pechora oil and gas province, which the administration of the Nenetsk Autonomous Okrug (Arkhangelsk Oblast) plans to hold at the beginning of September 1995. The American Exxon, Amoco, and Texaco companies and the Norwegian Norsk Hydro company are potential participants in the forthcoming bidding.

Considerable attention is being devoted now to increase oil drilling in a mainly Russian oil and gas region—Tyumen. One of the world's largest oil fields—the Samotlor Deposit—needs to be fundamentally renovated. In the opinion of government experts, with the level of taxes and the domestic price for oil that have taken shape (an average of 60 to 65 percent of the world price), the "Nizhnevartovskneftegaz" AO [Joint-Stock Company], which is exploring the Samotlor Deposit, is not in a position to carry out the necessary economic and ecological measures independently. Organizing bidding for the most promising parts of Samotlor, attracting foreign investors, is seen as a way out of the situation.

Prices

On the whole, prices for output of the oil drilling industry in the first 6 months of the year increased somewhat more (216 percent from December 1994 to June 1995) than the average for the industry (208 percent). Prices jumped noticeably in the first quarter of 1995 (by 62 percent). Cancellation of quotas and licensing of oil exports and the effort of domestic producers to bring their prices closer to prices in the foreign market played a substantial role here. In the second quarter, the average monthly increase in prices slowed down, reaching 54 percent for the 3-month period.

The Market for Shares

The sectorial index of shares in oil drilling enterprises, according to the "Analayz" analytical center, dropped and reached a value at the beginning of July after a brief period of upsurge. Over the past 2 weeks, demand for shares in oil drilling companies has declined somewhat, but the supply of these documents in the market has increased noticeably. In the opinion of experts from the "Sobolev" Agency, shares in "Yuganskneftegaz" and "LUKoyl" turned out to be "overheated" in July, and shares in "Komineft," "Permneft," and "Kondpetroleum" still have a respectable potential for an increase in rate. Unlike other sectors in this stage of structural reorganization of management, the market for shares in oil and gas complex enterprises may be characterized as speculative, and despite the period of decline in investment activity, it is potentially promising and profitable. On one hand, presence of the word "oil" in the name of an enterprise keeps interest in it high, but on the other hand, investors are aware that until next year, when the state begins selling off its blocks of shares, there is no hope of gaining control over these enterprises. Moreover, the continuing reforms in the oil and gas complex are scaring away long-term investors from purchasing stock in oil companies.

All the same, interest by both portfolio and strategic investors in the securities of oil drilling enterprises continues to be high. Recently the Russian Marketing Association, in response to an order by the Russian Federation Goskomimushchestvo [State Committee on the Administration of State Property], completed a study of the market for securities of privatized enterprises. In the opinion of the association's specialists, shares in oil companies are the most popular among both domestic and foreign investors. And shares in "LUKoyl," Surgutneftegaz," and "YUKOS" account for 80 percent of the demand. However, only 7.37 percent of the "YUKOS" shares will be sold in 1995 from the state's block of stock. By decision of the State Duma, sale of the remaining oil companies' shares which belong to the state is prohibited this year. But convertible bonds for these enterprises will be issued until the end of the year.

*Decree, Procedure on Centralizing Payments for Land Use

954E1265A Moscow ROSSIYSKAYA GAZETA in Russian 16 Aug 95 p 6

[Decree No. 749 of the Government of the Russian Federation dated 24 July 1995 On Adoption of the Order in Which Payments for Land Into the Federal Budget Are To Be Centralized]

[FBIS Translated Text] The Government of the Russian Federation decrees the following:

Adopt the proposed order in which payments for land into the federal budget are to be centralized.

[Signed] V. Chernomyrdin, chairman of the Government of the Russian Federation

1. The share of funds consisting of the land tax and lease payments for land, subject to deposit in the federal budget in the corresponding year, is determined in accordance with the law of the Russian Federation on payment for land.

2. Funds received from the levying of land taxes and lease payments for land are remitted quarterly by organs of local self-government as they are received, to the budget at the next higher level in legislatively established shares for centralization of these funds in the federal budget and the budget of the corresponding subject of the Russian Federation.

3. Organs of local self-government remit the funds received from the levying of payments for land and subject to centralization to budgets of the subjects of the Russian Federation in the first three quarters of the year—not later than on the 15th of the month following the report quarter, and in the fourth quarter, not later than on 1 December of the current year with the simultaneous submission to the finance organ of the corresponding subject of the Russian Federation of a quarterly (cumulative total) statement reflecting funds subject to centralization in the federal budget in a format shown in the supplement (not published).

4. Funds received in the budgets of the subjects of the Russian Federation from the levying of payments for land and earmarked for centralization in the federal budgets are remitted to it quarterly as they are received but not later than on the 25th of the month following the report quarter, with the simultaneous submission to the Ministry of Finance of the Russian Federation of a summary statement concerning funds subject to centralization in the federal budget (in a format cited in the supplement to the description of this order).

The deadline for remitting funds to the federal budget obtained from levying of payments for land in the fourth quarter that are subject to centralization and for submitting the annual statement to the Ministry of Finance of the Russian Federation reflecting the remittance of the indicated funds to the federal budget is set for not later than 15 December of the current year.

5. Amounts remitted by way of centralization are reflected by a decrease in revenues of that budget from which they are made.

*Land Reform Viewed as Basic Condition for Economic Stability

954E1320B Moscow FINANSOVYYE IZVESTIYA in Russian 22 Aug 95 p 2

[Article by Lev Makarevich, an expert in the Association of Russian Banks: "The Health of the Economy Depends Directly on Land Reform"]

[FBIS Translated Text] Russian banks have resolutely supported St. Petersburg Mayor Anatoliy Sobchak, who has appealed to the Constitutional Court to remove obstacles in the land section of the new Civil Code. This section was frozen by the State Duma for the period before the Land Code was adopted. It is highly likely that it will prohibit certain land transactions.

This has also become a key question for the financial community. But the idea that banks are lobbying for land reform in order to become large landowners shows lack of understanding of a modern bank's work. In agriculture, as in industry, it does not need leaseholders and hired hands, but efficient property owners.

The ownership of land, just as any property, primarily entails its management. Being an exceptionally reliable instrument, land is sometimes included in a balance—as a contribution to the charter fund or part of a conservative portfolio in the form of securities (bonds, mortgages, certificates, and so forth) which may be easily sold when necessary.

A bank is an institution which operates in a completely different area, the financial sphere, with more lucrative and liquid assets and liabilities. This makes it possible to offer more resources to those same agricultural producers, for example. And if it receives collateral from them in the form of a plot of land, real estate, and fixed capital for an outstanding loan, the bank prefers here to resell it for ownership to another efficient producer. Land is not very attractive to banks as an object and subject of speculation.

And it is dangerous to become involved with it in Russia. The state continues to be the principal owner of land assets here. It is easy to give up the services of other economic subjects—co-owners or leaseholders. Or to apply pressure with taxes or prices.

However, Russian banks need agrarian reform for more important reasons. When they abolished private property, primarily ownership of land, after the revolution in Russia, this led to destruction of a basic mechanism in the economy—the law of value. Which essentially was comparable to abolishing the law of gravity for one-eighth of the earth's surface.

Land, mineral resources, natural resources, real estate, and a great deal more were taken out of commodity turnover, determination of production costs, pricing, and monetary circulation. The anemic ruble, without the value of these assets and in the absence of sufficient commodities, was instantly turned into an empty piece of paper whose exchange rate was assigned by order from the top.

The cadastre, land books, mortgage, credit, pledge, trust, securities, and so forth lost any meaning. As well as the entire structure which provided them—banks, exchanges, and so forth. For nearly a century, the Russian economy was deprived of a skeleton and a circulatory and nervous system—it was blinded and ceased to hear a whisper of demand. State capitalism in Russia was built exclusively by repressive and administrative measures and instruments. They destroyed the normal market.

Little has changed over the past decade in this phantasmagoric system. As before, the law of value, price formation, and monetary circulation are not working. Moreover, it is immeasurably simpler to appropriate property and struggle for its redivision when no one knows the real value of the assets and there are no market instruments to evaluate them.

State programs for privatization and shareholding are being adopted. More and more new AOZT and AOOT [joint-stock companies], which provide work and feed more than one department, are being cooked up like blintzes. A commission on securities and the stock market is established under the president. A vast amount of trade both in and outside of exchanges in vouchers, shares, bonds, bills of exchange, and so forth which enriches thousands of brokers, firms, and funds gathers momentum in the country over a number of years.

Looking solemnly at representative international forums, they invite foreign investors to take part in this holiday. They work out appropriate programs for them which are approved at the highest level. Then they wait impatiently to see when foreign capital comes to visit.

Like Russian banks, their foreign colleagues are well aware that all this is a fairy tale—nothing more than a cyclopean Potemkin village. In the best case (for the country), it serves as an exercise hall for flexing financial biceps and mastering new instruments of economic operations. In the worst case, (for the country once again), it is a cancerous tumor which will finish off the Russian economy once and for all with very brief speculations. In any event, this is not the place for serious business and long-term capital investments.

Land is not sold under shareholding and investing enterprises. No one knows the true price for it, and for that reason, they do not take into account in quotations the securities which may be initially undervaluated or overvaluated.

For the foreign investor of capital, private ownership of land is the principal guarantee that there are civilized rules of the game.

The banker and entrepreneur with foresight are not attracted by corporate papers which are suitable only for speculation. In Russia, they have not become a channel for transferring financial resources between sectors and regions; they are used mainly for the seizure and most predatory exploitation of production assets. This is graphically demonstrated by the barbarous attitude toward natural resources by the TEK [fuel and energy complex] and state departments.

This also applies to the once-flourishing agricultural regions, They can be lifted up only with the help of land reform (there were about 10 versions of this in prerevolutionary Russia, depending on the specific nature of one region or another), including by the hands of 25 million Russians who have become social outcasts in the CIS republics. Through the solution of just one land problem in Chechnya, for example, Moscow could achieve something a thousand times greater than by bombings, destruction of cities, and annihilation of tens of thousands of people.

The attempts by (Neglinnaya) to force the banks to invest in agriculture and industry and to undo nonpayments, complicating the life of financiers in the sphere of speculation by increasing the prime rate and reserve deductions, by a currency corridor and other restrictions, are completely useless. The ruble will not find its previous, prerevolutionary level now and it will not correct the inherent dislocations of the Russian economy and monetary circulation by such means.

In recent years the M2 money machine has been making about 10 changes in direction per year as opposed to 1.5 to 2 in the United States, for example. Owing to this insane, erratic speed, the profitability of operations with a GKO [state commercial association] is more than 2.5 times as great, with SKV [convertible currency] is three times greater, and with MBK [interbank credit] is four times greater than from investments in production. There is only one method of pulling down the ruble from its speculative heights to the land—by finally bringing it into private ownership.

National Affairs

*Shcherban Publicity Campaign Motivation Sought

954F3064A Kiev MOST in Russian 7-13 Aug 95 No 31, p 4

[Article by A. Myshchenko and K. Konyk: "Self-Promotion or Policy of Frankness?"]

[FBIS Translated Text] The governor-reformer, as he was labeled by the local press, Vladimir Shcherban, chairman of the Donetsk Oblast Soviet, recently appointed to head the Donetsk Oblast State Administration, began an active agitation and propaganda campaign.

Recently there has been a marked increase in the use of local mass media outlets for various kinds of publicity for the governor and his team. The biggest and longest press conference by V. Shcherban's team, for instance, was held on Thursday, 27 July, which was broadcast throughout the evening by Donetsk state television as the Perekryv YT-1 program, thereby denying Donetsk viewers the opportunity of watching the Kiev "Fifth Corner" program which has a considerable following here. On the previous day each resident of the oblast had the opportunity to get a free copy in the mail of the special issue of the Oblast Soviet newspaper ZHIZN, which, according to the chief himself, cost some 3.9 billion karbovantsy. Elements of self-promotion are clearly visible in the indicated cases.

Why is that taking place? The reasons which prompted Mr. Shcherban to do this should be sought in the change of his official status. After all, it is no secret that appointment of chairmen of oblast soviets as chiefs of the corresponding administrations in light of the consolidation of the vertical executive line by the president of Ukraine, de facto means nothing other than a reduction in the status of governors elected by the people to the level of executors of the will of the administration of the president. In order not to fall off the presidential locomotive which is rapidly gathering speed and also to avoid losing the benefits of "representative" executive powers as head of the oblast soviet, Vladimir Petrovich decided to consolidate his position by ensuring the preservation of that very broad support and popularity among residents of the oblast which he enjoyed during the elections. To V. Shcherban, this is of special significance, taking into account the fact that he has never belonged to the president's inner circle and is far removed from those circles which have for some time been called "Dnepropetrovsk." He also found himself at one time (by accident or not, it is difficult to tell today) in the role of a protege of Yukhym Zvyagylskyy, a man who, besides having "schemed" against Leonid Kuchma at one time in the post of prime minister, also found himself suspected of state crimes. Therefore Mr. Shcherban can count on the support of the president today only by relying on such "iron" arguments as loyalty to the course of reforms, positive economic indexes in the oblast entrusted to him, and, of course, a high popularity rating among Donetsk residents.

The loyalty of the governor of Donetsk to reformist policy of the government is evidenced by the permanent conflict existing in that regard between V. Shcherban and the communists and socialists at various levels. They are sufficiently numerous in the power organs of Donetsk Oblast, as well as being highly orthodox and irreconcilable and even more radical than their party colleagues in Crimea and Lugansk Oblast.

Economic achievements speak for themselves, particularly by comparison with the "preserve of communism" or the neighboring "ancestral lands" of P. Kupin. During V. Shcherban's governorship it was possible to halt the decline of production at the once neglected "All-Union Stoke-Hole." That took place not only as a result of personnel changes but for the most part thanks to the auctioning of the giants of industry and privatization of medium and small enterprises and various service spheres. Donetsk Oblast has already received more investments from western firms than anyone else, especially in agriculture. Perhaps there is not enough investment for major changes in the economy of the oblast, but it is important to note that these investments were made for the most part specifically thanks to V. Shcherban's reformist image and not because of the still imperfect Ukrainian legislation in the area of property and foreign investments.

As far as popularity among the people is concerned, it is worth noting the following that the tradition of making decisions without any publicity or explanation, borrowed from the USSR, is alive in independent Ukraine. The behind-the-scenes lifestyle of our leaders is likewise insuperable. In the West, politicians appear on TV almost as frequently as stars of the stage. They do that not just to "show themselves" so that the voters do not forget what they look like but also to report on their activity thereby consolidating their authority on the basis of the old principle: "you respect me—I respect you." Bland newspaper columns with yet another decree without any comment by those who adopted it do not promote respect for those in power.

Therefore the propaganda campaign of Mr. Shcherban should perhaps be viewed specifically from that position. After all it is not excluded that this is an attempt to come closer to the people and become more understandable to them. It is another matter that in order to prevent such "appearances among the people" from seeming like ordinary self-promotion, it is probably necessary to devote particular attention not only to the explanation of one's position and various political steps but also to providing answers to some awkward questions which the citizens always have for any government figure. Then both popularity and trust are guaranteed for the leader.

Population Seen Leaning to Center-Left

954F3185A Kiev NEZAVISIMOST in Russian
18 Aug 95 pp 8-9

[Interview with Nikolay Nikolayevich Slyusarevskiy, candidate of psychological sciences, president of the Association of Ukrainian Political Psychologists and director of the Ukrainian Academy of Psychological Sciences' Political Psychology Practical Scientific Center, by NEZAVISIMOST correspondent Aleksandra Parakhonya: "The People Are Moving Closer to the Center, but From the Left"; date and place not given]

[FBIS Translated Text] **Why is it possible to win any referendum today? Why is the "peeling" Lenin ruining the Ukrainians' mentality? Why is it not worthwhile to foster individualism in us? NEZAVISIMOST correspondent Aleksandra Parakhonya talks about this and a lot of other things with Nikolay Slyusarevskiy, candidate of psychological sciences, president of the Association of Ukrainian Political Psychologists and director of the Ukrainian Academy of Psychological Sciences' Political Psychology Practical Scientific Center.**

[Parakhonya] Nikolay Nikolayevich, what is the situation today in Ukraine from a political psychologist's viewpoint?

[Slyusarevskiy] If you are talking about the general situation, then its basic parameters have remained fixed since the time (since 1992) that I and my colleagues began tracking them systematically. At the mass consciousness level, nothing has changed substantially in the mass psychology.

I would not like to repeat that which, perhaps, almost for the first time resounded from the pages of NEZAVISIMOST in our conversation of last year: now the situation's development is being defined not by the economic processes in and of themselves, as we used to believe as captives of Marxist methodology. Today, rather, it is consciousness which defines existence and not the other way around. But we are attempting to explain the development of an economic situation only by the fact that primary needs are not being satisfied. Unfortunately, now, not being satisfied first and foremost are the secondary ones —for self-identification, identity and self-esteem. Many of our fellow citizens still cannot understand, in what historical times they are living, where their native land is and who they themselves are. Everything proceeds from here!

It is important for each person to realize that his life is not senseless and it is important to identify oneself with some standard group of people, with some idea and, in the final tally, with a homeland. If this is lost, there ensues, as the psychologists say, an identity crisis. Of course, it is simpler to explain everything purely using everyday items, such as "sausage." In fact, however, everything is significantly more complicated.

Yes, existence factors can come to the forefront in specific historical periods. But people have come to the present situation already with deep-rooted stereotypes and these orientations and views are precisely what really define our existence.

[Parakhonya] It is quite unstable, just as our society is unstable today. What, in your view, can unite us? The economy, perhaps? It is true that this opinion is also being expressed — it is said that the West is getting by splendidly without uniting ideas and living much better than us.

As far as the economy goes — from the psychological viewpoint, this is an unsound thesis. At no time and in no place has an economy as such united people, on the other hand, people full of ideas did begin to move an economy. Otherwise, the latter came apart at the seams and went to pieces.

In the former rayon center in Cherkassy Oblast, where I was born and grew up, there was a story among the local party "establishment" at one time. In the political classes, the propagandist had been saying for a long time that, in 20 years, we would have communism and how splendid this bright future would be. But someone in the audience asked him: "But just who will build it, this communism?" If you think about it, the local "leaders" laughed for nothing. The questions was reasonable and worldly wise. The person knew perfectly well that neither he nor his immediate entourage were getting ready to build any kind of communism. And so now it is possible to ask: but just who will carry out the reforms, on which we are placing so many hopes, if society's condition is like this?

[Parakhonya] What do you have in mind?

[Slyusarevskiy] According to our data, 68 percent of those surveyed express a negative attitude toward privatization, seeing in it a "path to slavery." Opposed to the auctioning off of enterprises are 71 percent of the respondents, while only 12 percent are for it. Just 11 percent believe that the commercial banks are working for the good of Ukraine. In favor of their immediate banning are 64 percent. The private-farming forms of management are supported by only 41 percent (among the rural population, this indicator is even lower). Considered intolerable by 57 percent are any reforms in the economy, if they may lead to unemployment.

In politics, only 33 percent uphold the multi-party concept. Ready to support restrictions in democracy for the sake of maintaining order and overcoming crime are 53 percent....

[Parakhonya] Then it is possible to draw the conclusion that the mass consciousness still does not grasp the necessity of the reforms?

[Slyusarevskiy] No, in their words, the majority favors the reforms. But when it comes to the specific paths and forms for their implementation, people frequently reject what is new, since they see in it a threat not only to the usual means of existence, but also — the main thing — to the established set of values, for which they still have no replacement. And which, to be honest, by far do not always contradict the ideals common to all humanity. This is why, incidentally, what I consider to be one of the biggest errors of the first years of Ukraine's independence is the thoughtless war against what I would call the mythologems and symbols of the USSR. THIS should not have been done first and warred against LIKE THIS. The effect of this "work," so incompetent from the psychological viewpoint, is a boomerang effect. Let us consider, the "average citizen" who reveres Lenin today, is he really that attached to the real Lenin who sent Muravyev's troops into Ukraine? No, he is attached to the ideal, to whom the best human qualities were ascribed.

[Parakhonya] He simply had no other ideal.

[Slyusarevskiy] I would say that what is occurring today is historical revenge. The older generation is receiving the same thing which, at one time, was callously and ruthlessly done to their own parents, destroying the churches and eradicating religious and national traditions. Its beliefs are being eradicated today just as ruthlessly — after all, this is what was taught.

And as for the matter of symbols, it is necessary to say a bit more. Take this "peeling" Lenin who stands in almost every village, he is impressed by the scars of immorality into the Ukrainians' genetic code! This is not the way to treat monuments. Either they should have been removed or, if they are needed by the people, they should have been looked after. After all, there are also monuments in Western Europe in honor of both monarchs and revolutionaries. This is not ideology — it is pure psychology. By this neglect of ours, we are ruining the mentality of our own people. This is because such a scandalous attitude toward the past and brutality toward preceding generations were not originally characteristic of Ukrainians. Incidentally, I admit that many "rulers" with communist sympathies deliberately support this scandalous attitude toward monuments of their own "leader," in order to provoke and to direct into the necessary channel the veterans' resentment. And the democrats are assisting this in their own anti-communist badmouthing.

In scientific terms, the old mythologems and symbols in the mass consciousness have not yet been replaced by anything. Consequently, the problem of integrating values is very acute currently. It is impossible, as it seemed, to defy the laws of psychology by simply taking one set of symbols and replacing them with others or replacing old values with new ones. Nothing comes of this, except alienation.

All of this is ambiguous, but it is rooted precisely in the fact that we are like this, this is our life and its current realities. The psychology of post-empire Ukraine is the psychology not of any individual social groups, but rather, of the society as a whole. It was shaped under conditions of totalitarianism, which are identical for all. And there should be no illusions on this score. This psychology, in one variation or another, is characteristic of both the masses and their leaders, both the political elite and the counter-elite and both the supporters of totalitarian ideology and their opponents from the democratic camp and even, as unfortunate as it may be, of many of my fellow scientists.

I have already cited examples obtained in the course of our studies. It is apparently necessary to explain what our conclusions are based on. Using comparable methods with a specific periodicity, beginning as of 1992, we conducted a number of studies. We managed to construct a model of our society's political-semantics domain, which has large forecasting possibilities. I will tell you later how we obtain the data, but it is possible to judge our model's potential by the fact that we predicted accurately to within one percent the arrangement of the political forces in the then still future Supreme Council (the correlation of the rightist, leftist and centrist forces).

Let us consider a schematic depiction of the model. It contains the two most important coordinate axes. One arbitrarily designates the people's assessment of independence — from positive to negative, and the other designates the assessment of the reforms.

Based on this model, it is possible to represent the correlation of political forces, the situation and the prospects. To enter onto it any social group, party, any political force or even an individual person, it is sufficient to have frank responses to our questionnaires. Then the obtained data are processed on a computer. As a result, we obtain a quite specific point which designates the place of a given political force, person and so on in this coordinate system — what revolves around here, so to speak, is the mass consciousness, all the collisions of present-day political life. These coordinate axes can be called the world-outlook oppositions of public sentiments.

[Parakhonya] It would be interesting to know, based on which data do you determine the placement of one or another political force?

[Slyusarevskiy] We selected several dozen different opinions from among those expressed by the people themselves, the press and so on. These opinions make up a semantic picture of our reality. The most diagnostically significant statements were picked out and the questionnaire was developed based on them. The data are processed using mathematical statistics methods and....

[Parakhonya] Diagnostically significant statements — what are these?

[Slyusarevskiy] Well, for example: "In the rural area, it is necessary to improve the forms of collective management and not to rely on farmers who are concerned only about profit." Or: "The OUN-UPA fighters are the eternal glory of the Ukrainian people." "Privatization is a fairytale for the naive. In point of fact, a few will seize everything, while the majority remains slaves." "Rich people should govern the state, because anyone who has not been able to get rich himself, will not lead the people out of poverty." "The path to a better life should be pursued under the Red Banner of Labor" and "Ukrainian patriots are capable of leading Ukraine out of the crisis"....

It is important to emphasize here that the horizontal coordinate axis, which shows the assessment of the reforms, has a clearly expressed ideological coloring. It turned out that the economic sentiments in our country are directly associated with ideology. The determining, most "loaded" opinions — in the language of mathematical statistics —turned out here to be the ones of an ideological nature and not those of an economic nature. Which also confirms the conclusion: it is not the economy at all, which defines the entire mosaic of the mass consciousness.

[Parakhonya] All these "red flags of labor?"

[Slyusarevskiy] Exactly. The mass consciousness is still very closely attached to the Hammer and Sickle, to Lenin and to October [the revolution]. And this is giving rise to extremely dramatic collisions in the mass consciousness. Similar to what have occurred in Belarus.

I would say that we have greatly underestimated the Belorussian factor.

[Parakhonya] Perhaps it is not just the scientists who have underestimated it?

[Slyusarevskiy] Yes, the politicians as well. But the scientists did no prompting. Someone from the national democrats call the results of the referendum which occurred there an Anschluss [a pro-annexation vote]. To be honest, I do not think that this is really that big an exaggeration. A perfectly unique geopolitical collision was created. But, unfortunately, we also have a perfectly unique situation. Indeed, some of our regions, it may be said, are molded on Belarus. And the state of the mass consciousness in our country, for example, in Lugansk Oblast, differs little from that of our nextdoor neighbors. This is why we will ponder the significance of what has occurred. In point of fact, the people voted for unification under the communist symbols with capitalist Russia. This is absurd! Incidentally, our studies indicate that, in Ukraine as well, a significant portion of the people, on the subconscious level, is continuing to see Russia as a bulwark of communism. They are orienting themselves toward the Russia of the past, as it has remained in their minds.... The mass consciousness does not see any contradiction here.

Such a situation is undoubtedly fraught with dramatic consequences. We would add to this that the bedazzlement with the idea of reviving the empire is causing many intelligent people in Russia to lose sleep. They seemingly do not see what the whipping up of such integration processes may lead to. Zyuganov, the leader of the Russian communists, said lately that the "limit of revolution" is now exhausted in Russia. But let us ponder how much the Belorussian referendum has increased this "limit." And not just in Russia.

[Parakhonya] Disunity and instability are the feeding ground of conflicts. By and large, thank God, we have avoided them so far.

[Slyusarevskiy] Yes, but conflict in society is continuing.

[Parakhonya] Just how can it be reduced?

[Slyusarevskiy] Any professional psychologist will say: in order to get out of a conflict, even a family one, it is necessary to stop talking about its causes for some time. However, we are trying to reconcile the older generation to something, to which it is impossible for it to reconcile itself. Our studies indicate this clearly. It is impossible, by exaggerating a theme of history, to reconcile people, a part of whom considers the UPA fighters to be heroes, while another part considers them to be bandits.

[Parakhonya] Then the search for some unifying idea is a waste of time?

[Slyusarevskiy] A unifying idea is undoubtedly needed. It is nonsense to say that the West is getting by splendidly without such an idea. Let us be more specific — it is getting by today. But, after all, at one time, people there died for these unifying ideas. Let us remember the slogan of the French Revolution.

A psychologist, of course, is not a magician. All the same, let the politicians, political scientists and philosophers look for unifying ideas. But psychologists can submit the initial material for such a search and show what will work and what will not. And when such an idea emerges, they can assist in its "packaging." I am convinced that an idea capable of uniting society will never arise in the mind of an outside observer. It should roll around in all social layers. It is necessary to study the experience of national reconciliation. There is Spain. There is post-war Germany. Even in Latin America, against the background of violent national processes, they are seeking some kind of path of their own in this direction.

In the end, it is not a matter of some kind of formula or words. There are many beautiful and correct words in our country. For example, "national harmony" sounds beautiful. But these words have long since become commonplace. And the reason is not just the fact that the Soviet propaganda machine devalued both the words and the ideas. This formula is inapplicable to the present situation. Perhaps we should first talk precisely about national reconciliation. For example, in the name of the future of our children. But I want to emphasize: a unifying idea will not emerge in a vacuum. An ideology as a whole is needed, which corresponds to the masses' sentiments.

[Parakhonya] Certain political scientists are endorsing the idea that it is necessary to eradicate the collectivism which has "eaten its way" into us and the asceticism....

[Slyusarevskiy] I flatly do not agree with this. Why, tell me please, foster in us that which is negative in the Anglo-Saxon mentality? After all, they are fighting in the West against the egoism which gives rise to estrangement. I do not doubt that there is quite enough individualism in the Ukrainians' mentality for market reforms. That it would be good to direct it into a constructive channel is another matter. After all, without the opportunity to realize seriously their individualism in the economy and other spheres of life, which were, let us say, less accessible, people got accustomed to displaying it in small squabbles and conflicts. The market transformations are specific mechanisms of an instrumental range, to which it is impossible to subordinate literally everything — life and spirituality. And, incidentally, these mechanisms have been successfully employed by peoples of non-Anglo-Saxon mentality — for example, the Japanese or the Koreans — without destroying their own spiritual values or collectivist orientations.

Or what sounds like a reproach: we are fostering asceticism. We will not touch upon who is fostering it and how. We will note only that the developed countries believe that the lack of reasonable asceticism is a misfortune and that the ideology of consumption has boomeranged on society. It is necessary to regard as normal the fact that some former socialist values may satisfy specific sentiments in our present-day society. And I say again that it is time to stop exaggerating problems, on which it is impossible to find a unifying principle. To attempt to approach them from the other side. To develop a youth movement under the slogans of national reconciliation. To seek approaches in that which attracts the young people: music, sports and tourism. And, incidentally, to relate more calmly to the forms for working with them which, for some reason, are considered to be "Soviet." After all, all these "eaglets" and so on were not devised by a fool, but by high-class professionals. That a fool held all this in his hands is another matter. Which is why, incidentally, he also lost the ideological war. Why could these forms not be used dressed up differently?

There is one more important point: it is necessary to give society the feeling of victories of some kind. I was very pleased with the thought expressed by one journalist. What are the symbols of our national heroism? Kruty and Berestechko are tragic pages of history and defeat. At the same time, who today remembers Oksana Bayul — the first Ukrainian Olympic Champion? The lowly Solomon Islands would have sounded off about her to the entire world and made a fuss over her. But what did we do? With what does Latin America save itself in its unenviable situation? Soccer. It unites the people and produces the feeling of victories. We, unfortunately, do not waste our time on such "trifles." Listen to the radio and leaf through the newspapers: from the economic rubrics to the literary ones — nothing but Weltschmerz [pessimistic view of the world].

At one time, I dealt with Chernobyl-related themes. After 1986, when journalists, for a long time, were not allowed to show the realities of the events in the area and suddenly, the pendulum swung to the other side. The press rushed to make up for what was omitted over that time through lies and coverups. And, as a result, we encountered a terrible thing — these publications developed an insatiable demand for negative information from many residents of the contaminated areas and resettlers.

[Parakhonya] Then, the idea is that there exists the danger of the development of such a demand on a national scale?

[Slyusarevskiy] Of course, the whining is constant — it is putting a strain on the psyche. But this is by far not the only problem. The information domain is what is supposed to bolster the nation. Where is it in our country? Any social body can function properly, if the internal lines of communication outnumber the external ones. But when "Ostankino" [Moscow tv station] is the "nationwide" one, it is clear what kind of result is possible....

[Parakhonya] What kind? What does your coordinate system indicate in general with respect to the future development of events?

[Slyusarevskiy] I will not dissemble — I greatly fear the development of events based on the Belorussian scenario. I am not the first to say this and, judging by the state of the mass consciousness, such a version is not out of the question. Although, in our country, this is fraught with significantly unhealthier — bloodier! — things. Last year, we came to the conclusion that the number of supporters of independence had stabilized at the level of 60 percent. Now, according to our data, this figure is even higher — 68 percent. But a remark must be made here about the two-faced nature of the mass consciousness. From the viewpoint of formal logic — it is completely absurd, but the one and the same person can — simultaneously! — be both for independence and for the revival of the [former Soviet] Union. The danger of the current situation lies in the fact that somewhere around 20 percent of the population, judging by our surveys, simultaneously supports both these ideas. Of course, when almost every fifth person has such a two-sided position, basically, an unpredictable situation is created. These "fifths"....

[Parakhonya] A fifth column?

[Slyusarevskiy] No, that feeding ground, on which any political force can count. This is why we draw the conclusion (incidentally, we informed the president's administration about this) that it is possible to win any referendum today. Think about it: anyone can win any referendum! It is enough to have in one's hands the mass media and the appropriate power structures.

[Parakhonya] God save us from referendums! But, nevertheless, even if these 20 percent "two-faced" citizens are subtracted from the 68 percent, independence still has an enormous number of supporters all the same.

[Slyusarevskiy] Yes, which confirms once again that the application of the Belorussian scenario to Ukraine is fraught with terrible consequences. And not just for our country. This must absolutely be taken into consideration.

But now let us return to the diagram. I should say that our model of society's political-semantics domain basically differs from abstract political-science constructions detached from the state of the masses' psychology.

[Parakhonya] But what if it is not detached?

[Slyusarevskiy] Then it must be stated that our notions about the political center differ greatly. Of course, politicians feel that the center is important and it is worthwhile to enlist its support. But the fact is that it, the center, is depicted in our politicians' minds as a certain ideal abstraction, a certain lack of extremism. In our model, however, we indicate a specific point — that center which is the center for the people and not for the leaders. The center of the public consciousness.

Whether anyone likes this or not, it should be stated that the center of the masses' sentiments is currently located in the area of a moderate attitude toward the reforms and of a just as moderate attitude toward independence. With a certain shift to the left.

[Parakhonya] As I understand it, this shift signifies specific anti-reform and anti-state sentiments.

[Slyusarevskiy] Very insignificant ones. Of course, this is an arbitrary point.

[Parakhonya] Can it be called the "people's point?"

[Slyusarevskiy] Yes, the masses' sentiments are concentrated here. And thus, the most promising political force today is that one which will resound in unison with these sentiments. It may arbitrarily be said that this is the place of the center-left.

[Parakhonya] It seems to me that certain political parties are now attempting to transform themselves somehow in this direction. For example, the liberals....

[Slyusarevskiy] They intuitively feel that it is necessary to rush toward there, but they do not know what to invest in this Center-Leftism. The proof of this are the points which correspond in our coordinate system to the actual positions of the political forces in society.

[Parakhonya] There is no one around the point marked "the people"....

[Slyusarevskiy] The place of the center-left is vacant. You see, the leftists are quite far from the point marked "the people." The national democratic parties are also "terribly far from the people".... Incidentally, we proceeded not on the basis of the program documents, but rather, on the basis of the results of the studies conducted among the parties' active members — those who, as the saying goes, carry the ideas to the masses.... Also far from the center-left are the representatives of social democratic tendencies.

[Parakhonya] Then what follows from this?

[Slyusarevskiy] The fact that, being so far from the masses, it is impossible to get their backing. And, I repeat, that political force which could occupy this place, would, in the end, have a real chance of uniting the people and offering a national idea which would suit everyone. Because, according to the well-known psychological laws, the distance between those leading and those being led should be minimal. Otherwise, the ideas of those leading are not perceived by those being led as their own.

[Parakhonya] In the elections for people's deputies, the leftists pressed the rightists appreciably. Is this really not proof that many people, as unfortunate as this may be, are accepting the leftists' pharisaical declarations as their own?

[Slyusarevskiy] No, the leftists' success in the elections was caused precisely by the absence of a force which the masses could follow. In this instance, people are seeking some kind of substitute. But it is already obvious now: the leftists do not control the situation to the degree that it would be possible to speak of a predominant impact on the mass consciousness.

Incidentally, at one time, one respected and very progressive magazine, for "technical " reasons, did not publish an article (obviously, my conclusions did not please them), in which the future of the just elected VS [Supreme Council] was predicted.

[Parakhonya] And just what was the prediction?

[Slyusarevskiy] That this parliament will either end its own existence even earlier than the preceding one or, due to the adjustments of the positions of both the rightists and the leftists, which will move toward the center-left, find stability.

[Parakhonya] Judging by its efficiency, which is close to zero, our parliament is preparing to realize the first version of your prediction.

[Slyusarevskiy] If there does not emerge in it an adequate stratum of people who express the masses's genuine sentiments, there cannot be any talk about any kind of support of the masses. And by the way, I assess quite pessimistically the prospects of a center-right bloc. The people will be dissatisfied with any power structure which is not guided by the masses' sentiments. To be more precise: I am not at all idealizing that hypothetical political force which could occupy this unfilled place. Possibly, if such a force emerges, it will be outdated after some period of time and become an obstacle to social progress. But for now, without it, it is impossible to bring everyone together and to solve the problem of stabilizing society.

Centrifugal tendencies are predominating in society currently, they are intensifying and this is giving rise to quite a few problems in the plan for consolidation and in the plan for putting forward a national leader.

Have you thought about the fact that, in point of fact, the second presidential theme in our country is already proceeding according to this one and the same scenario? The situation in the country is driving the claimants to the role of national leader to political mimicry. The elections end in a victory, events unfold and they frequently make it necessary to forget campaign statements. There is the state and it is necessary to solve state problems. There is a gradual departure from the original slogans.

Let us take last year's situation on the eve of the presidential elections. The electorate which voted for Leonid Kuchma had sentiments even more to the left than those of the people who voted for A. Moroz. I think that this was so at one time (we had not yet conducted studies then) even in Leonid Kravchuk's first presidential run. However, in the second elections, Kravchuk's electorate was already composed of people of primarily rightist views. But now, Leonid Kuchma's electorate is also completely different from that of a year ago. In point of fact, that place which his supporters occupied in 1994 in our diagram is now occupied by respondents who "absolutely would have voted against L. Kuchma." There was a substantial redistribution of the electorate to the right and upwards. The diagram shows that the president's staunchest supporters are in the area of poorly expressed... anti-reform sentiments. But this electorate is expanding due to the shift to the right. There is one more group of respondents who would have voted for Leonid Kuchma "in the absence of a better candidate.' And if everything continues in this direction, then the president's electorate will move even farther to the right — farther and farther from the point marked "the people." I.e., the "mass" will be lost....

These recurring themes are very dangerous. This is why, in the end, in some cycle of these recurrences, we will be able to elect our own Lukashenko [the Belarussian president] and to run to some sinister figure.

[Parakhonya] And we will sign our own death warrant.

[Slyusarevskiy] Yes, this may lead to unfortunate consequences.

[Parakhonya] One respected newspaper has criticized you: the political psychologists "will make" the third Ukrainian president. If so, perhaps you will share your plans?

[Slyusarevskiy] I have never said anything of the kind. They are putting others' words into my mouth. I do not doubt that, among our politicians, there are enough intelligent people capable of taking this kind of "sensation" as a joke. In general, however, I consider such statements to be harmful and premature. May God help us to cope with the present-day problems.

Economic Issues

*Pynzenyk Views Privatization Process

954K0669A Lvov VYSOKYY ZAMOK in Ukrainian 3 Aug 95 pp 1-2

[Article by Viktor Pynzenyk under the rubric "Privatization: A Commentary by a Qualified Individual": " 'Equality Does Not Consist of Giving Each Citizen an Equal Share of Property...' "]

[FBIS Translated Text] **Our newspaper never hesitates to provide a forum for the prominent reformist economist Viktor Pynzenyk regardless of what offices he has held or now holds. Viktor Mykhaylovych offered us a series of articles which show that there is no alternative to economic reforms in Ukraine, despite fierce opposition from conservative forces. Despite the existence of a deep socioeconomic crisis, the first signs of the recovery of our economy and of the stabilization of the financial system are already evident.**

We believe that this article, which reveals the deep-seated processes of privatization, will be of interest not only to economists and business people, but also to a wide circle of readers. After all, we all yearn to become owners.

The Starting Price: A Million Dollars or One Dollar?

It is simply our duty to talk about accelerated mass privatization. And this is not a slogan, not just another campaign. Rapid privatization must encompass, first and foremost, the following spheres: so-called small-scale privatization (objects of trade, services, public catering), unfinished construction projects, and financially "ailing" state enterprises, which need to be restructured and revived with funds obtained through privatization — that is, those spheres in which new jobs are immediately created. Obviously, this does not mean that privatization should not be conducted in other spheres as well. Nor does this mean that as a result of the restructuring and division of existing enterprises, all newly created enterprises must necessarily be privatized.

I know that many debates are under way in our country regarding the value and price of objects that are being privatized. Which is better: to set the starting price of a store that is being sold at auction at a million dollars or at one dollar? I am certain that most people will say — at one million. And.... they will be mistaken. I will try to prove this and convince you that this position is wrong. The lower the starting price, the higher the final price of an object will be. Imagine that a store on Khreshchatyk Street in Kiev is being sold. If an auction is announced and the starting price of the object is set at one dollar, tens of thousands of citizens from all regions of Ukraine will submit applications to buy it. If, however, the price is set at one million, there will be two or three applications. I think I need not try to convince you that the second instance offers many opportunities for abuse and the final price may prove to be lower than in the first instance. The scheme is quite simple: two or three individuals "work" together. One person buys, while the others "play" at auction. If there are tens of thousands participating in an auction, it is next to impossible to engage in collusion. Ten minutes into an auction, it is difficult to determine who will buy the object. And as even our own experience shows, objects that have a low starting price sell at a higher price. An analysis of the results of auctions conducted in Ukraine in 1993-94 (209 objects) has shown that in the case of 153 of them, the sale price, as compared with the starting price, rose less than 100-fold (28-fold on the average), for 42 objects —from 100 to 1,000-fold (273-fold on the average), and for 14 objects — more than 1,000-fold (741-fold on the average).

Moreover, as a rule, the highest prices were obtained in the sale of those objects whose starting prices were lowest. Thus the Aneks in Uzhhorod was sold for $289,000 (starting price — $80), Zakarpatskyy korovay — for $367,000 (starting price — $849), the Hospodarski dribnytsi store in Rivne — for $111,000 ($24), Polisyanka in Rivne — $617,000 ($159). What is important, however, is that sufficient information and free access for all those wanting to participate in the auctions be ensured.

What Should Be Done with Long Drawn Out Construction Projects and "Ailing" Enterprises

With respect to unfinished construction projects and "ailing" enterprises, we need new approaches to determining prices. We are accustomed, for instance, to valuate unfinished construction projects based on their building cost.

We take an identical approach to enterprises, for whose products there is no demand and the prices of which are significantly higher than world prices. However, the value of an object is determined not only by how much money has been spent on it. Because its value does not lie in how much its components cost, but in how much income it will earn for the new owner. But, for example, what kind of income can a vacuum cleaner plant produce, if the price of its vacuum cleaners is twice as high as world prices while their quality is inferior — in other words, if it is impossible to sell them? Bringing this plant to a level at which both the price and quality are acceptable requires a large investment of money. In other words, at first, such enterprises and unfinished construction projects both are loss-making — they entail outlays for the new owner, not revenues. This circumstance cannot be ignored. Life itself confirms this. Overestimating the price of unfinished construction projects hinders their privatization. The result is that property is stolen and the structure gradually falls into ruin. Who gains by this freezing of funds? Meanwhile, there were more than 25,000 unfinished production-facility construction projects in Ukraine at the beginning of the year.

Not everyone is willing to accept this argument. That is unfortunate. Because unfinished projects and enterprises whose products are noncompetitive are a heavy burden on the well-being and on the real living standard of the entire population. It is therefore better to transfer them into private ownership free of charge or for a token price — one dollar (would to God that we find someone willing to take them) — on condition that work to complete the unfinished project is started immediately. In social terms, everyone wins: there is immediate work for construction workers — that is, new jobs are created right now; this means additional jobs when the object is put into operation, additional revenues, and additional output of production — that is, the prerequisites for raising the real living standard of people — both directly of those who will be employed at these objects and of employees in the budgetary sector thanks to increased budget revenues from the operation of newly commissioned objects. In addition, pressure on the budget in the form of demands for funds to complete construction or revive "ailing" enterprises is eliminated. This pressure is of an inflationary nature, because the budget has insufficient revenues — that is, at present they can only be "invented" by printing additional money.

Vouchers Must Become a Commodity

Let me deal with another aspect of privatization. Citizens have been issued privatization certificates. However, under the law, these can only be used for privatization. It is prohibited to sell them. But we all know that in reality the buying and selling of vouchers is going on. Illegally, to be sure. There are many ways in which this is done. And where such activity is illegal, there are always opportunities for abuses. Although the nominal price of a voucher is 50 million karbovantsi (close to $300), they are being bought for $10-$20.

As we have already seen on many occasions, the equality of all citizens that has been proclaimed is being transformed into its opposite. Equality does not consist of giving each citizen an equal share of property. This in itself would result in inequality. It all depends on which object a voucher is invested in: one person will happen on a good object, while another chooses a worse object. One object will produce good earnings, while another may produce nothing whatsoever and, instead, disappear, go bankrupt. Our citizens have no experience in securing property rights through the investment of privatization property papers. That is our objective reality. Nor do the intermediaries in privatization always help (the scandalous stories in this respect are probably familiar to everybody).

The equality of all citizens in privatization must be guaranteed by something else: avail yourself of your right to become an owner if you wish to do so, or sell this right, if you so choose. In a situation in which many citizens are living in extreme hardship and could improve their circumstances somewhat by selling their vouchers, it is amazing to hear: we will not allow it, because we do not know who will buy them up and what money will be used. Yet a segment of the population does have money, and these people are buying up vouchers and, moreover, at absurdly low prices

It is necessary revoke the relevant legislative prohibition and permit the free purchase and sale of vouchers. In our circumstances, this permission will intensify inflationary processes somewhat. This is due to the structure of spending by a population with different incomes. The potential sellers of vouchers would be, first and foremost, low-income citizens, who spend most of their income (or all of it) to meet their most essential needs — buying food. Thus the funds that are freed up by the sale of vouchers will be used by them to buy food and nonfood consumer items. At the same time, the wealthy strata of the population will not reduce their buying volume. But this will create a low and acceptable level of additional inflation.

Let me repeat, this is a question of the right rather than the duty of citizens to sell their vouchers. I would like to give the following advice to those who would like to sell their privatization vouchers hould this legislative prohibition be lifted: do so when privatization takes on a more massive character. This will cause the price of the voucher to rise, and people will not be buying them up for absurdly low prices.

Preventing the Flight of Capital from Ukraine

Privatization in conditions of a stable financial stabilization can secure the trend towards the return of currency to Ukraine, providing the investments that the economy so badly needs. These are not loans that we, our children, or our grandchildren will have to repay. The state is not liable in any way to those who invest money in the economy. This is a risk that an investor takes. It is he who has to worry, not we. (There are exceptions in which state guarantees are extended to foreign investments. Such guarantees need to be gradually limited.)

It is no secret that there are wealthy individuals in Ukraine. It is no secret that a large portion of them keep their money in accounts in Western banks. Thus there needs to be a reason, an incentive, for returning this money to Ukraine. Personal consumption cannot serve as such an incentive. They already have everything: apartments, dachas, prestigious cars, first-class food. What can attract and bring back this money is privatization. I will not discuss here the nature, the mechanism, of the source of money. I will note only one thing: money is often accumulated not as a result of reforms, but, on the contrary, as a result of blocking reforms, marking time. The classic example, which by now is probably understood by everyone: the unlimited emission of money, which is incompatible with reform, and the resulting rise in prices provides a wonderful basis for the redistribution of the incomes of the majority in the interests of the minority. But the fact remains: Money from Ukraine is today serving the economies of other countries. Privatization will gradually bring this money back into the economy of our country, and this will promote a revival of our production.

Is there an alternative to this move? Realistically speaking, as a matter of fact, there is not. Conducting a structural reorganization at the expense of the budget, replenishing it by printing money, that is, at the cost of the citizens, causes a further falling of the living standard, the redistribution of income, and the flight of foreign currency out of the country and of the national currency, into the sphere of intermediary, speculative activity rather than into production. Conversely, attracting investments (including by means of bringing back capital) requires financial stability, and as a consequence of this, decreased social tensions in society.

No less important is yet another social aspect of privatization. As a rule, wages at private enterprises are higher. And this, along with privatization, is of importance to the emergence of a middle class — the basis of social peace, accord, and harmony in every civilized state.

Apart from social aspects, yet another circumstance dictates speeding up privatization. At present, the capital that has flown from Ukraine, is mostly in the form of bank deposits. This is a so-called highly liquid form of disposition for the possible return of capital (you withdraw your money from your account and bring it back). But this situation will not continue for long. It will be very dangerous if the money is materialized in the form of property in the West. Property cannot be transferred to Ukraine. This process is gradually beginning. You can see this for yourselves just by reading the advertisements in the Ukrainian press (offers for the sale of property, housing in the West, etc.). That is why only resolute, energetic privatization can halt this process, which threatens future investments in Ukraine. And in the wake of the returning capital that had been removed from Ukraine, we will also see large foreign investments following. The experience of other countries shows that this process begins when domestic investment activity begins to revive in a country.

A Privatization Plan?

The president of Ukraine has issued a series of decrees designed to accelerate privatization. However, we cannot be satisfied with the pace of privatization. Of the 10,076 objects slated to be privatized in January-May 1995 (6,767 objects of small-scale privatization and 3,303 of large-scale privatization), only 3,309 (16 percent) have been privatized, of which 948 (14 percent) were objects of small-scale privatization and 705 (21 percent), of large-scale privatization. At this pace, it will be difficult to meet the target of 8,000 of large and medium-sized enterprises specified in the decree of the president of Ukraine, even though this is not an end in itself, but an essential, integral element in the complex of economic transformations. Along with further improving the legislative regulation of privatization, it is necessary to literally overcome opposition to it, establish strict administrative controls in this sphere; we need to recall that old, but familiar word — the plan — to bring down to the local level the targets that must be met. And not in terms of volumes of revenue into the budget — although this is also important, but, above all, in terms of the number of privatized objects. We cannot allow the rise of a large, ever-growing percentage of unemployment as the inevitable consequence of the structural reorganization of the economy. It is the employment of freed up workers that is one of the important goals of privatization at this stage.

*Coal Union Leader on Sector Problems

954K0671A Kiev UKRAYINA MOLODA in Ukrainian 11 Aug 95 p 3

[Interview with Viktor Derzhak, head of the coal miners' union, by Yaroslav Halata; place and date not given: " 'Miners Will Not Become the "Miner's Pick" in the Struggle for Power!' "]

[FBIS Translated Text]

The Latest News ***Still fresh in our memory are those days in May when a large delegation, worried by the troublesome situation in their sector, came to Kiev. The miners threatened that if their demands were not met, they would not support the president in the national plebiscite on confidence [in the country's leader]. But Kuchma treated the miners exactly as they wanted to be treated. He carefully studied all their demands and promised to act as a guarantor that these demands would be met.***

Two months have gone by, and the miners' movement has suddenly revived again. There are frequent reports of "hunger revolts" by miners that add to the president's and the government's headaches.

Viktor Vasylyovych Derzhak, the head of the Central Committee of the Trade Union of Coal Industry Workers, acquaints the readers of UKRAYINA MOLODA with problems that exist in the coal sector and the miners' plans for the nearest future.

[Halata] Viktor Vasylyovych, it was decided at the last plenum of the Central Committee of the coal industry trade union that no strike would be held at this time and that there would be "no march on Kiev," but, instead, that the miners would sell coal from their stores on their own.

[Derzhak] Selling coal from storehouses is not all that simple today. The principles of a planned economy, when everything that was extracted had to be handed over "upstairs" and the state took care of selling the coal, are deeply ingrained in us. Of course, we still need state support and assistance. Especially to ensure unwavering compliance with the law on the customs tax on the coal that is imported from outside Ukraine. Because another reason that it is difficult to find a buyer for our coal is that it now costs more than imported coal. However, today a great deal depends on the sector itself. The Ministry of the Coal Industry is now firmly resolved to grant maximum independence to coal mining enterprises. An enterprise has to be interested in the results of its work. That is why coal companies have already begun to form. Very soon there will be four of them, and it is planned to create a total of twelve companies. They will consist of mining enterprises, that is, mines, coal concentrating mills [vuhlezbahachuvalni fabryky], coal sales organizations that will sell this "black gold," and their own banks. Such a closed industrial-financial group will make it possible to solve one of the most acute problems — the payment of wages to miners. Mines will deliver their coal to the sales organization, and the latter will pay them money, which will then be used to pay wages. I estimate that in two to three months the question of miners' wages will be completely stabilized.

[Halata] At present, however, miners at some mines have not received their wages for several months and cannot wait any longer. How do you expect to solve this problem right now, and what concrete steps must the government, with which your commission is negotiating, take?

[Derzhak] It is true that we are actively working with the government at this time. We are demanding payment of the amount owed for delivered production. This amount currently totals 37 trillion karbovantsi. Our largest debtors are Obltopy (household heating), the Ministry of Industry, and the Ministry of Energy. We cannot continually deliver on credit — if we are not paid, we have no money for miners' wages. That is why at the plenum of the trade union's Central Committee we decided to halt deliveries of coal to those consumers who do not pay their bills. We are currently receiving thousands of complaints that our customers have no supplies in their warehouses and that when winter comes, there will be no fuel... I am very concerned about our country, but I believe that we must hold out to the end. Consumers must be compelled to buy our production and not take it for free. As far as the government is concerned, we are demanding that it provide credit to our debtors to enable them to settle their accounts with us. As soon as they do so, we will turn over to state reserves nearly six million metric tons of coal.

[Halata] On 2 August, at a meeting of labor collective workers and the trade union committees of the mines of the Torezantratsyt Production Association held at the Prohres Mine, it was determined that the 17 points of the protocol signed based on the outcome of the coal miners' meeting with the president on 29 May were not being fulfilled satisfactorily. Does the trade union have a strategy and tactics for ensuring that these agreements are carried out?

[Derzhak] I am especially frank with *Ukrayina moloda* and will therefore put it this way: what happened at this conference can only be described as a sanctioned attempt to stir up people in connection with the nonpayment of wages. In no way does this have anything to do with the fulfillment of the 17 demands. This action was initiated by the managers of the Torezantratsyt Production Association on their own. Last week, we heard the reports of the general directors of Torezantratsyt, Chervonoarmiyskvuhillya, Selidvuhillya, and some other ssociations. These reports made it clear that it is the associations themselves that are 115 percent responsible for the delays in the payment of wages. Their managements, looking after their personal interests, financed commercial structures.

As head of the coal miners' trade union Central Committee, I cannot describe the fulfillment of all the 17 points of the protocol as unsatisfactory. The draft laws that were prepared have been submitted for consideration by ministries and departments. The provision about customs taxes has already been put into effect. Such taxes became effective as of 1 July. The proceeds from these taxes are being turned over to us for the development of the sector. I therefore feel that the work is proceeding quite well. Of course, there are some problems — for example, we have still not received any money for capital construction, which we desperately need. We would return this money to the state in a few months with a substantial profit... But we understand that the fulfillment of the 17 points is not something that can be done in a day. Those issues that could be settled quickly were settled while the miners were still in Kiev.

[Halata] What do you think of the spontaneous strikes, the so-called "hunger revolts," which are contrary to the decisions of the trade union?

[Derzhak] I fully understand and in some measure even support the spontaneous strikers. A person who goes down into a mine needs at least 36,000 calories, yet today many miners work without sufficient amounts of caloric products. Moreover, the miners have families that need to be fed. And if you are not paid for several months, it is easy to fall into despair. Naturally, we try to provide financial assistance to those miners where spontaneous revolts occur. But these strikes will stop only when every manager, whatever office he holds — from the director of the association to the minister — looks after the needs of the sector. The government has met us halfway, and it is up to us to solve our own problems.

[Halata] What do you think about the IMF's requirement that unprofitable mines be shut down?

[Derzhak] I find this absolutely normal. I am the head of the trade union's Central Committee and presumably should be loudly voicing my opposition to this. But I am also an economist, and I understand that old mines are loss-making for the state. The IMF is requiring that the first thing we do is ensure that there is correspondence between mines and costs. The Fund is allocating money for the civilized shutting down of mines, so why should we oppose this? Some mines have exhausted their reserves long ago. By operating them, we are merely wasting electric power and squandering money to buy timber, rails, etc. Given today's transportation facilities, closing a mine does not mean leaving hundreds of people without jobs. The circumstance in which only those men who lived nearby worked at a mine was true one or two hundred years ago. Today we have numerous instances in which miners are transported to work 50 to 60 kilometers away.

[Halata] What can you tell us about the decision of Donetsk miners to begin collecting signatures calling for the resignation of Leonid Kuchma?

[Derzhak] This is not the first time I have heard this. This is the initiative of the trade union activists of Donetsk Oblast, the Donetsk Communists, and they should not be identified with the miners. We are well aware that there have always been people who have attempted to exploit as powerful an "engine" as the miners are in their own interests. This time, too, people who are determined to return our society to socialist times want to use the miners to eliminate the institution of the presidency. But the miners have made their position clear: there has to be order in the country, and the guarantor of this order must be the president. I am grateful to the miners for understanding the full danger of becoming a tool in anyone's hands, especially when dubious political games are being played at a difficult time for the country.

Belarus

*Lukashenko Said To Seek Russian Presidency

954F3091A Moscow KOMSOMOLSKAYA PRAVDA in Russian 8 Aug 95 p 2

[Article by I. Sinyakevich: "Aleksandr Lukashenko Wants To Be President of Russia"]

[FBIS Translated Text] That stunning piece of news was reported to its readers by the Belarus newspaper SVOBODA. At the same time the newspaper quoted a statement Lukashenko purportedly made to his closest associates: "Belarus to me is old business."

The news was picked up by private publications, each one of which deemed it necessary to devote one or several exhaustive analytical articles to this topic. With all of its incredulity our Belarus colleagues view this from the viewpoint that, as they say, there is no smoke without fire, especially since most of them concur in the opinion that in Lukashenko's politics it is easy to see him as laying claim to the post of president of a unified state consisting of Russia and Belarus. Is that possible?

Today that scenario appears to be fantasy, but let us try to imagine it.

In the autumn or winter of 1995-1996 Belarus president organizes the political unification of Belarus with Russia, or, at the very least, brings matters to the point where a law on dual citizenship is adopted in Belarus. That provides a formal reason for participation in the Russian presidential campaign. What is there that can be used to an advantage? In the heart of most Russians there is nostalgia for the lost might of their country. Patriotic moods are growing. A person who returns Belarus to Russia, which is exactly the way that would be perceived in mass consciousness, has all chances of success. After all, the other patriots are all talking about readiness to restore the Soviet Union, while this one actually di[illegible]. To that it is necessary to add the phenomenal popular appeal of Lukashenko, which ensured him such an impressive victory in the presidential elections in Belarus.

Being disenchanted with the West, which did not hurry to welcome Belarus with open arms and whose favors had to be earned, Lukashenko, like a sensitive flower, turned completely to the East. Several "Westerners," more precisely, proponents of a multi-directional policy, voluntarily left the presidential entourage or were forced out. Colonel Vladimir Zametalin, known for his Pan-Slavic views, became head of the information office of the administration. The degree of his influence on the president can be judged, if nothing else, by a phrase uttered by Lukashenko when the question about holding a referendum was being discussed in Parliament: "Belarus is now regarded as the center of Slavic civilization, which may cause its rebirth." With all of my love for Belarus I never thought that it would be the center of anything.

What the president had in mind when he spoke of the rebirth of Slavic civilization becomes understandable on the basis of his subsequent declarations. On the day of the referendum, Lukashenko stated in an electoral precinct that Belarus and Russia could achieve an even closer degree of integration than in the Soviet Union. What could be closer? Only the entry of Belarus into the Russian Federation? If Lukashenko really wants to run for president of Russia, his actions appear quite logical.

The show with the removal of the gate at the Belarus-Russian border, for example, is worth plenty! Yeltsin had no time for that event. Chernomyrdin agreed to come. In accordance with diplomatic protocol, the premier should have taken part from the Belarus side, but Lukashenko did not relinquish his role.

Lukashenko does not miss even the most insignificant event within the framework of the CIS. Recently, for instance, he focused his attention on the conference of ministers of transport of CIS countries. Lukashenko is attempting to establish relations with the regional Russian elite. In violation of protocol and without an obvious purpose, he visited St. Petersburg. As a result there was a statement from Sobchak on readiness to support any form of integration with Belarus. Luzhkov, the mayor of Moscow, visited Minsk. The Belarusian president did not miss the opportunity to participate in the recent meeting of heads of 28 oblasts of Russia, Ukraine, and Belarus, where there was a discussion of ways to integrate the three countries at the regional level. It is possible to assume that Lukashenko's next step will be detailed negotiations on alliance with some political force in Russia. A tentative step has already been taken. In February Lukashenko received General Sterligov. By the way it was shortly after this meeting that Lukashenko uttered the sacramental phrase: "Belarus to me is old business."

Kazakhstan

Agreement Creating 'Kumkol-LUKoil' Signed

*954F3167A Almaty EKSPRESS-K in Russian
18 Aug 95 p 2*

[Article by Larisa Chernenko: "Kumkol-LUKoil: Give Us Oil!"]

[FBIS Translated Text] Yesterday in Almaty an agreement was signed for the creation of a joint Kazakhstani-Russian oil enterprise—Kumkol-LUKoil. For the Russian side, the agreement was signed by the president of the LUKoil Petroleum Company, Vagit Alekparov, and for the Kazakhstani side, by the acting president of the Yuzhneftegaz state joint-stock company, Alik Aydarbekov.

After signing the founding document, Vagit Yusufovich answered questions from journalists and stated that as early as April of this year, a protocol of intention had been signed and by today all the necessary documents had been prepared. In September it is intended to build the oil field facilities, whose development will take roughly two to three years. The plan for the development of the fields will require net investments in the amount of $300 million. The volume of oil production is expected to be around 2 million tonnes a year. The joint venture expects to produce the first tonnes of oil as early as the beginning of next year.

As for the contribution from Kazakhstan, geological prospecting work has been done and a unique oil pipeline has been constructed, but our side is putting up only the money needed for the development of the northern side of the deposit. The profit will be divided up equally between the parties.

Regarding further plans for the future, it was reported that three oil companies had been privatized, including the Shymkent oil refinery, at which the oil that is produced will be refined and then transported to Russia. There is the hope that even next year, in the south of Kazakhstan in any case, there will be no problems with oil products.

Moving Capital to Akmola Subject to Survey

*954F3170A Almaty NOVOYE POKOLENIYE
in Russian 18 Aug 95 p 5*

[Unattributed article: Moving the Capital: For and Against. Results of a Sociological Study"]

[FBIS Translated Text] In July of this year a sociological study was conducted in the city of Almaty by the telephone poll method which included 495 people. The basic question asked of the respondents went like this: "How do you feel about the decision to move the capital?" And 66.4 percent of the Almaty residents questioned were against it, 15.4 percent were for it; 10.5 of the respondents were completely indifferent to moving the capital, percent 7.7 were undecided, and this was the first time 2.3 percent of the Almaty residents who participated in the poll had heard of the decision.

The ratio between proponents and opponents of the move was one to four, which means that if a referendum were conducted on this issue right now, the proportion of people voting against moving the capital to Akmola would be no less than 80 percent of the overall number of Almaty residents who participated in the voting. Of course, Almaty is not all of Kazakhstan: But the arguments on the one side and the other deserve the attention of those who will ultimately make the decision, whose consequences will affect the lives of millions of citizens of the republic.

MAIN ARGUMENTS AGAINST

1. The move will inevitably entail large costs. Against the background of the decline of the standard of living of a large part of the republic's population, to spend the taxpayers' money on such things is unjustified, to say the least—this is what is thought by 63.1 percent of those who participated in the poll.

2. 13.9 percent of the respondents think that the location of the capital of Kazakhstan in Almaty is much to be preferred, the more so since a fairly large number of the necessary administrative buildings have already been constructed here and management of the country has already been organized.

3. 13.1 percent of those questioned think that moving will cause aggravation of social problems in the city and above all an increase in unemployment; the lack of the previous attention from the government to Almaty's problems will be the cause of a general deepening of the negative consequences of the economic crises which affect the residents of the city above all.

4. A large proportion of those questioned, 11.5 percent, simply like their city and, in spite of the subjectivity of the motives for such patriotism, one must give Almaty residents their due; they are concerned about the fate of Almaty.

5. History has ordered that the capital of sovereign Kazakhstan shall be Almaty and it must remain such in spite of anything—this viewpoint is held by 3.1 percent of those questioned.

6. 0.6 percent think that if the capital is moved to the more northern regions of Kazakhstan, the southern part of the republic risks becoming an undeveloped and economically backward region of the country.

7. Also, 3.1 percent of the Almaty residents who participated in the poll think that moving the capital to Akmola is inexpedient primarily because of the unfavorable climate of the latter.

In the history of Kazakhstan, the capital has already changed positions: In 1929 it was moved from Kzyl-Orda to Alma-Ata precisely because of the extremely unfavorable climatic conditions, which are practically unsuitable for the normal functioning of the republic's leadership. In our day, Akmola's harsh climate, of course, is not such a problem as it was at the beginning of the century, but still one should think about the need for increased expenditures that would be required for maintaining government institutions under the conditions of the severe winters.

MAIN ARGUMENTS "FOR"

1. Akmola is the center of the country, with all the positive consequences for management that ensue from that, and this was indicated by 11.5 percent of those polled.

There is an example in history where a capital was moved to the center of the country because its previous location was ineffectual. In 1963 the capital of Pakistan was moved from the city of Karachi, which is located in the extreme northern part of the country, to the center, where a new city was especially built—Islamabad. But the remoteness of Karachi was really an indirect reason; next to the place where the capital subsequently appeared was the staff of the Pakistani army, which was conducting combat operations in the northeastern border provinces, which are unstable to this day.

Under the conditions of the modern development of means of communication, the location of the government in the center of the state no longer plays a decisive role in effective management of the country and acquires more symbolic significance.

2. Some 8.5 percent of the Almaty residents who participated in the poll hope that with the capital moved out of Almaty, life in the city will be "easier and calmer": Prices will drop, the ecological situation will improve, and the number of people who come "for an easy life" will decrease.

3. The most weighty and significant argument is the fact that Almaty is located in a zone with a high degree of danger of earthquakes. The threat of a severe earthquake was given by 6.6 percent of the respondents as the main reason for moving the capital.

Of course, a decision adopted out of such considerations is not altogether ethical with respect to the residents of that city, and one can understand the feeling of internal discomfort of the Almaty residents, but one must admit that, in the first place, the responsibility for the fate of all people of Kazakhstan lies on the shoulders of the government and, in the second place, if there were an earthquake comparable in consequences to the ones that occurred in Vernyy in 1887 and 1910, then the organizational confusion that could arise and the complete paralysis of the government, even if it were temporary, would lead to inevitable losses of time in a situation where every minute counts. Such was the case in 1948 in Ashkhabad, then the capital of what was the Turkmen SSR, and only the efforts of the Union leaders could normalize the situation and organize rescue and restoration work. I do not think the people of Almaty are their own enemies, and they would not saw off the branch on which they are sitting.

4. Of those questioned, 3.6 percent think that Almaty has exhausted all its possibilities of further development, while Akmola has practically unlimited potential in this regard.

5. 3.1 percent of the respondents see a threat from being in the immediate proximity of the Chinese border.

6. 1.8 percent of the Almaty residents consider the change of the administrative apparatus which they think will occur if the capital is moved to Akmola to be a positive aspect.

The following suppositions were also expressed: Moving the capital is related to the difficult economic situation that has developed in Almaty—9.1 percent, and to the overpopulation of the city—3.6 percent. I do not think that either the one or the other could serve as an objective reason for the move, and therefore they were not included on the general list given above, which is also true of those who consider the mere fact that the decision to move the government has already been made to be sufficient justification—they made up 1.8 percent.

7. 3.6 percent of those questioned think that the move will make it possible to "join" to Kazakhstan the northern regions of the country, which economically are being drawn increasingly to the adjacent oblasts of the Russian Federation.

8. 3.0 percent think that Almaty has every chance of becoming a health resort city and will remain the cultural and scientific center of the republic.

9. 2.4 percent of the respondents think that the only positive thing is that when the capital is moved, Akmola will be given a new impetus for development and a second fairly well developed city will appear in Kazakhstan.

10. 1.8 percent of those questioned expect changes in interethnic relations.

It is surprising that 29.7 percent of the overall number of Almaty residents who participated in the poll not only do not see sufficient justification for the move, but do not even understand why it is necessary and what the purpose of it is. Such a thing is possible only in our country, and perhaps also the CIS countries. One can only feel sorry for a people whose government will "not lower itself" to explain the motivation for its activity. But it would be unfair to pile all the blame on the republic leaders alone; ultimately every people has the government it deserves, and in this connection one can just as well blame the absence of an active civic position on the part of each specific member of the society and advise state employees not to forget whom they serve.

The range of arguments given above is still not an objective expression of public opinion regarding the question of the expediency of moving the capital to Akmola. Having eliminated all viewpoints that were in any way subjective, we came up with the following picture:

AGAINST--67.3 PERCENT

Large and unjustified expenditures—64.2 percent

Unfavorable climate—3.1 percent

FOR—32.7 PERCENT

Location in center of country—11.9 percent

Seismicity of Almaty—6.9 percent

Lack of possibility of further development of city—3.7 percent

"Joining" of north to Kazakhstan—3.7 percent

Proximity of Almaty to border—3.1 percent

Renewal of administrative apparatus—1.9 percent

Proximity of Akmola to main industrial centers—1.5 percent

It is quite clear that even all the possible advantages of the move, in the opinion of Almaty residents, do not justify the monetary expenditures it would require. We now have problems in our country that require much more attention from the government:

1. Above all, social problems require solutions, and this means mainly aid to pensioners; these people have now ended up in conditions the entire gravity of which cannot be expressed in words. Can one really consider it normal that 40 percent of the pensioners who participated in the poll were forced to earn extra money in order somehow to keep themselves at the level necessary for survival? The majority of them are working as guards, janitors, or junior technical personnel, or they are trading on the streets. They are the ones the republic leaders should focus attention on—this is thought by 45.4 percent of those questions.

2. 22.4 percent of the respondents are worried about the slow progress of the economic reforms and the absence of signs of improvement of the country's economy.

3. 21.2 percent of those questioned think that now it is necessary first of all to pay attention to the advancement of our own production.

4. 16.4 percent do not see that the government is making adequate efforts aimed at prevention of the development of unemployment in the country and at the creation of new jobs.

5. 14.5 percent consider the irregular payment of wages to be a serious problem.

6. 7.9 percent demand that attention be paid to public health problems.

7. 6.6 percent are worried about the deep crisis in the public education system, which is not capable of getting on its feet by itself; in their opinion, this will require special efforts on the part of the government.

8. 5.4 percent of the respondents demand immediate measures for establishing legality and law and order in the country, and here special attention must be devoted to preventing corruption and other abuse of office on the part of state employees.

9. 4 percent think that the government must direct its efforts toward preventing inflation. The rise of prices is one of the main reasons for the social tension in the country.

10. Also 4.2 percent of those questioned think that the country's leaders should set to seriously working on problems of agriculture and the people employed in it.

In addition to the aforementioned problems, in the opinion of Almaty residents, there is an urgent need to straighten out the tax system, which in its current form does not make it possible for production to develop—3.6 percent; special attention is required for maintaining interethnic harmony—3.0 percent; 2.4 percent of the Almaty residents say that homeless children have appeared on our streets and if attention is not paid to this "phenomenon" today, tomorrow we could be faced with much more threatening unpleasantness; 1.8 percent of those questioned demand that we stop the sale of the country abroad.

Such is the portrait of our society today, and we would like to hope for understanding among the powers that be of the fact that without solving even half of these problems it is quite impossible without arousing the quite justified wrath of the people to raise questions such as moving the capital, with regard to which I share the opinion of the 7.9 percent of Almaty residents who think it possible to return to this issue no sooner than in five or 10 years.

The representiveness of the selection with respect to sex, age, and ethnic affiliation in the city of Almaty is assured by its "adjustment" and the analysis of the results by the weighted average method. The random, step, cluster method was used for selecting the respondents. The maximum margin of error cannot be more than 12.5 percent of the calculated values of the proportions of the indicators.

Laumulin on Neutrality, Military Threat

954F3166A Almaty EKSPRESS-K in Russian
18 Aug 95 p 3

[Part one of interview with Murat Laumulin, lead scientific associate of Kazakhstan's Strategic Studies Institute, by Mikhail Ustyugov; place and date not given: "There Is No Realistic Military Threat to Kazakhstan Today"]

[FBIS Translated Text]

[Ustyugov] The first draft Constitution said that Kazakhstan aspires to a policy of neutrality, but these words are missing from the revised draft. What, in your view, is the explanation for this?

[Laumulin] I believe that the drafters were right to take out these words. Neutrality presupposes nonparticipation in any military bloc, and Kazakhstan is a participant in such a bloc in accordance with the Tashkent Collective Security Treaty, signed in May 1992. Only a few states have neutral status, and the corresponding assurances on the part of other countries (neighbors primarily) and the world community as a whole are essential for its real guarantee. The oldest neutral state is Switzerland, but its neutrality was recognized back at the start of the last century by the European powers.

[Ustyugov] Turkmenistan also has proclaimed itself neutral. Does it have guarantees from the world community?

[Laumulin] No, this initiative is more of a propaganda nature as yet. The presence of a sizable Russian troop contingent on the territory of Turkmenistan essentially imparts to its neutrality a decorative role: It is clear to each state outside of the CIS that, in the event of an armed conflict with Ashkhabad, a hypothetical aggressor would ultimately have to deal with Moscow.

[Ustyugov] That is, we have in the draft Constitution abandoned, as it were, the aspiration to a decorative neutrality that is unrealistic for us today?

[Laumulin] Unrealistic and disadvantageous. Kazakhstan can today provide for its security only in an alliance with Russia. Our national armed forces are as yet in a state of initial formation, and it will be difficult for them to emerge from this embryonic phase with the present financial difficulties.

[Ustyugov] The idea of the expediency of the total abolition in the republic of our own army was heard several years ago. We could not "defend ourselves" against China or Russia, in any event, and armed conflicts with our Central Asian partners would seem simply improbable. There are states that get by without armed forces altogether—Costa Rica, for example. These ideas seemed to many people staggering at that time....

[Laumulin] Nonetheless, considering the present performance capability of our armed forces, it may be maintained that such an approach has to some extent been realized. We truly do not need a big army, although mobile, rapid-reaction, well-trained military formations would not go amiss. But the threat of military aggression in relation to Kazakhstan would seem unrealistic today.

[Ustyugov] Some experts believe that in the next century intensive population growth in China could be an objective prerequisite for attempts to expand the "living space," by military means included....

[Laumulin] I believe that the "Chinese threat" has been heavily mythologized in our consciousness and is a holdover from Soviet, Brezhnev times. China has its own vast undeveloped and comparatively sparsely populated territories. It is altogether improper to link demographic factors with military-political factors today. The sole form of real "expansion" that could be employed by a state is economic "entry" by way of proprietary investments, the consolidation of positions on our domestic market, and the purchase of properties, and in the future, land. And here we should concern ourselves with our economic security in order that cooperation be truly mutually profitable.

[Ustyugov] Nonetheless, let us imagine a fantastic situation— some state does attack our territory. And the aggressor's forces are far superior to our army's potential, what is more. What then?

[Laumulin] The aggressor would then have to deal with Russia, which, according to the Tashkent Treaty, must repel this attack by all means at its disposal, including, if necessary, nuclear weapons. This, incidentally, is a powerful deterrent factor, which makes your conjecture truly fantastic.

[Ustyugov] So we are covered by Russia, by its "nuclear umbrella" included. But in Russia itself the political situation appears none too stable. Some politicians there mourn for the "lost territories," meaning the former republics of the USSR. What would happen were these neo-imperial trends to prevail over common sense and were political relations with our northern neighbor to deteriorate sharply?

[Laumulin] Relations between Kazakhstan and Russia are not cloudless, but the probability of their deterioration and of some conflicts arising is practically zero, inasmuch as Kazakhstan is a most important strategic ally of Russia, and no one in Moscow denies this. It is sufficient to say that several large Russian military bases—from the Baykonur Cosmodrome through the firing ranges for testing the latest types of weapons—are, in fact, located on our territory. Russia has leased them for several decades, at a minimum, and this says a great deal. Another aspect: We have never objected to military integration with Russia—per the NATO or Warsaw Pact model. Moscow's military-technical, personnel, information, and other assistance is essential to us today for the creation of an efficient system of our own security.

[Ustyugov] Nonetheless, many Russian politicians are today unhappy with the Kazakhstan authorities, which, in their opinion, are gradually squeezing Russia out of former economic positions and ceding its "place" to other partners—from West Europe, the United States, China....

[Laumulin] This is an objective process, and it is explained by no means by this personal predilection or the other of our statesmen. The leadership of the republic is pragmatic: We need today financially strong, dependable partners with effectively operating capital which on terms advantageous both to them and to us could help stabilize the economy and raise production. Were there such powerful financial resources in Russia and were Russian partners able to provide for the most efficient technology, the development of our infrastructure and such, we could wish for nothing better. But Russia has, as we know, a mass of economic problems of its own, and this is making a certain impression on economic cooperation with Kazakhstan.

[Ustyugov] This, evidently, is a reason why integration processes within the framework of the CIS are moving slowly and not always efficiently?

[Laumulin] Yes, integration presupposes a certain level of economic well-being among its participants: Simply put, it is necessary in order to unite to have something in the pocket, but we have, rather, a union of the destitute, and for this reason the majority of the documents that have been signed remain on paper only, and even the payment of dues for the upkeep of the staff of the joint bodies is becoming a big problem for many states. Objectively, the republics are continuing as yet to "scamper about"—they want to establish themselves as independent states, ensure the protection of their national and economic interests, and form concepts of their independent development.

[Ustyugov] So the idea of a Eurasian Union appears more desirable than possible as yet?

[Laumulin] This idea creates primarily a positive emotional- psychological factor; it is more a philosophical concept reflecting the prospects of the constructive interaction of the Slav and Turkic groups. But realization of this idea at the interstate level—the creation, say, of a confederation, which would include a number of countries of the CIS—would seem unlikely in the immediate future. We have yet to find the golden edge between the degree of sovereignty and the degree of interdependence.

[To be continued]

Armenia

Dro Case Indictment Published

954F3164A Yerevan RESPUBLIKA ARMENIYA in Russian

[Bill of indictment in three installments, signed by S.Ye. Gezalyan, chief of Investigative Department of RA Procuracy and legal counsel third class, ARMENPRESS translation]

[16 Aug 95 pp 1-2]

[FBIS Translated Text] **As we already reported, the bill of indictment was read at the trial of the "Dro" group on 10 August. We are printing it here for our readers.**

The charges in criminal case No 62200395 are as follows:

1. Grant Ovsepovich Markaryan—violations of Section 72, subsections 4 and 8 of Section 99, and paragraph 3 of Section 213 of the RA Criminal Code

2. Arsen Arayevich Artsruni—violations of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code

3. Armenak Levonovich Mndzhoyan—violations of Section 72, subsections 4 and 8 of Section 99, subsections 2, 4, 6, and 8 of Section 15-99, paragraph 1 of Section 232, and paragraph 3 of Section 213 of the RA Criminal Code

4. Armenak Zakarovich Zakaryan—violations of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code

5. Ovanes Serezhayevich Mkrtchyan—violations of Section 72, subsections 4 and 8 of Section 99, and paragraph 1 of Section 205 of the RA Criminal Code

6. Armen Yakhshibekovich Grigoryan—violations of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code

7. Ara Artinovich Kharmandaryan—violations of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code

8. Edik Shvernikovich Simonyan—violations of Section 72 and Subsection 4 of Section 99 of the RA Criminal Code

9. Gegam Azatovich Manukyan—violations of Section 72 of the RA Criminal Code

10. Gevork Benikovich Alaverdyan—violations of Section 72 of the RA Criminal Code

11. Tatul Droyevich Gabriyelyan—violations of Section 72 of the RA Criminal Code

A preliminary investigation of this criminal case, based on the records of proceedings instituted according to paragraph 2 of Section 73 of the RA Criminal Code in connection with the discovery of a narcotic substance of the heroin category in a suitcase carried onto a plane making a regular flight from Yerevan to Moscow by Yerevan resident Ovanes Serezhayevich Mkrtchyan, established the following.

Citizen of the Islamic Republic of Iran Grant Ovsepovich Markaryan, one of the accused in this case, and citizen of the Republic of Lebanon Arsen Arayevich Artsruni, another defendant in this case, arrived in the Republic of Armenia in 1990. Defendant G. Markaryan has been a member of the party of the Armenian Revolutionary Federation Dashnaktsupon (ARFD) since 1977, and the other defendant A. Artsruni has been a member since 1981, they have continued their party activities in Armenia, and they are, respectively, the leader and a member of the ARFD defense council.

Defendants G. Markaryan and A. Artsruni formed a secret reconnaissance organization, known as "Dro," as a branch of the ARFD defense council in December 1992 with the aim of attacking, terrorizing, and punishing individuals committing offenses against ARFD members, and of punishing certain party members betraying the ideals of the ARFD or engaged in subversive activity against it, and with the aim of organizing illegal economic activities and trafficking in illegal drugs. This organization was a permanent armed gang whose members practiced the clandestine surveillance and recruitment of individuals to be trained as party workers and gang members in periodic training sessions with procedural programs, conferred titles on these individuals, and used secret passwords, safe houses, clandestine shelters, and code-name aliases.

Defendants G. Markaryan and A. Artsruni initiated other defendants in this case into the gang—trustworthy ARFD members Armenak Levonovich Mndzhoyan and Armenak Zakarovich Zakaryan.

Defendants Ovanes Serezhayevich Mkrtchyan, Armen Yakhshibekovich Grigoryan, Ara Artinovich Kharmandaryan, Artavazd Paruyrovich Manukyan, Zorayr Grachevich Atabekyan, Edik Shvernikovich Simonyan, Gegam Azatovich Manukyan, Gevorg Benikovich Alaverdyan, Armen Rafikovich Agayan, and Tatul Droyevich Gabriyelyan were also initiated into the gang at different times.

Firearms, ammunition, and explosives were illegally purchased, stored, and distributed to gang members with the aim of arming the gang and for use in the commission of crimes. During the preliminary investigation, one

Polish submachinegun and eight Makarov pistols, including "IP 2267," the pistol defendant A. Mndzhoyan received from defendant G. Markaryan personally on 1 April 1993, were discovered and attached to the case as material evidence.

In addition, some of the firearms illegally acquired by defendant G. Markaryan were delivered personally by him to leaders, officials, and rank-and-file members of the ARFD Party, in reference to which notes, memos, and other records kept by G. Markaryan were discovered and attached to the case.

Defendants G. Markaryan and A. Artsruni were also armed, respectively, with a Makarov pistol, No RB8985, and the same kind of pistol without a serial number, and prior to this, at the beginning of 1991, G. Markaryan obtained and used a forged Soviet passport, VIIZhG N 626353, bearing the name of Aleksandr Gurgenovich Tovmasyan, but with his own photograph, and in addition to this, on 21 April 1993, a forged Armenian citizen's overseas passport, 42 N 0058378, bearing the name of Asatur Pargevovich Meloyan, but with his own photograph.

Other gang members, defendants A. Mndzhoyan and A. Zakaryan, also had and used obviously fraudulent passports with their own pictures but with different names.

Soviet passport XXIZhG N 633612 in the name of Islam Shamil ogly Babayev was forged for A. Zakaryan by another gang member and defendant in this case, O. Mkrtchyan, who glued a photograph of A. Zakaryan on the fifth page of the passport in place of I. Babayev's picture and notarized it with a fraudulent stamp, and A. Mndzhoyan acquired an obviously fraudulent passport, XXI N 0087028, with his own photograph but in the name of Eduard Kolyayevich Petrosyan, on 17 July 1991 from a source not identified during the investigation.

To secure the secrecy of their activities and to evade exposure, gang members used secret codes and code numbers to communicate with each other and their leaders—encoded orders and reports were transmitted, secret messengers were used, and the code numbers themselves were changed frequently.

In this group of defendants, for example, G. Markaryan used code number 03 and codename "Saddam," A. Artsruni used code number 110 and codename "Varo," A. Mndzhoyan used code number 120 and codename "Glosvits," O. Mkrtchyan used code number 1211 and codename "Artist," G. Manukyan used code number 121 and codename "Gitun" ("Expert"), etc. The meeting place and headquarters of the gang were warehouse facilities leased by the "Artsruni" company, allegedly for use as warehouses of the "Khanasor" company, from the board of the Masisskiy Rayon Fishery and located in the rural community of Ayntap in the same rayon, and apartment No 75 at No 4 Nar-Dos Street, which was called "Paros" for the purpose of confidentiality. The gang had vehicles—"VAZ-2121 Niva," "Moskvich," and "Zaporozhets" cars and a "Yamaha" motorcycle—and they had portable radio transceivers and other communication systems.

In 1993 and 1994 the gang committed several crimes, including premeditated homicides, the acquisition and smuggling of illegal drugs, and other related offenses.

Unable to overlook a confrontation between Yerevan resident Ashot Eduardovich Nersisyan and his friends and gang members A. Artsruni, A. Kharmandaryan, and G. Markaryan in October 1993, for example, A. Manukyan and A. Mndzhoyan conspired to plan and carry out the murder of A. Nersisyan, codenamed Operation "Kerob."

On the orders of defendant A. Artsruni, gang members E. Simonyan and Z. Atabekyan secretly followed and watched A. Nersisyan for around a month and a half under the command of A. Zakaryan. After they had learned the address and layout of A. Nersisyan's apartment and had drawn a diagram showing the locations of the furniture in each room, and after A. Nersisyan's daily routine had been ascertained, defendants A. Zakaryan, A. Grigoryan, E. Simonyan, and A. Manukyan went to No 39 Shakhverdyan Street, where A. Nersisyan and his wife and child lived in apartment 15, in the "VAZ-2121 Niva," No k90-59, registered to A. Mndzhoyan, on the night between 12 and 13 October 1993, armed with Makarov pistols and led by A. Manukyan and A. Mndzhoyan, while O. Mkrtchyan, according to their prior agreement, stayed in their headquarters in Ayntap.

Defendants A. Mndzhoyan, A. Zakaryan, and A. Grigoryan gained entry to the apartment by fraud, on the pretext of a vehicle sale, while A. Manukyan, E. Simonyan, and Z. Atabekyan kept watch outside, according to the roles assigned to each member in advance by A. Mndzhoyan.

Defendants A. Mndzhoyan, A. Zakaryan, and A. Grigoryan discussed various topics with A. Nersisyan in the dining room, trying to lure him out of his apartment and to take him to the Ayntap headquarters for the purpose of killing him there and disposing of his body, but when A. Nersisyan refused to leave the apartment, defendants A. Mndzhoyan, A. Zakaryan, and A. Grigoryan began acting according to a second alternative, also planned in advance, and killed A. Nersisyan and his wife, Nune Pogosovna Marukhyan, with 11 bullets fired from three pistols, after which they left the scene of the crime unnoticed and drove to the headquarters in Ayntap in the same car with E. Simonyan, A. Manukyan, and Z. Atabekyan and reported to O. Mkrtchyan, who was expecting them, that they had been unable to bring A. Nersisyan to headquarters and had therefore had to kill him and his wife in their apartment.

That same day defendant A. Mndzhoyan sent defendant A. Artsruni a written report in code, saying that "the operation was carried out successfully according to the second alternative we planned," and A. Artsruni then sent a written report to gang leader G. Markaryan, describing the murders in detail from the reports he had received and notifying him that, during the operation, "all three pistols were used. Kerob got two or three bullets in the head and his wife got the same. The rest of the bullets hit other parts of the targets" (vol 7, 2, 44).

On the orders of defendant G. Markaryan, an operation was planned by the gang within the ARFD party in April 1994 to kill party member Gagik Grigoryevich Saakyan, codenamed "Top-1," for "subversive" activities.

After defendant A. Artsruni received the order to kill G. Saakyan from defendant G. Markaryan, he asked A. Mndzhoyan to make the preparations for this murder, telling him in a written message that it was necessary "to bear the following in mind during the Top-1 affair: Top-1 is a symbol of intellectual dissent. Taking advantage of every possible stimulus and weakness of the human mind, he was able to disorient our organization during the first two years of its Artsakh struggle.... Demoralizing the adversary is a common practice of the Soviet school of disinformation. In short, when the disinformation comes to an end, this should be published so that the public will know who the real leaders and manipulators are. Our organization was endangered. when Top-1 and his close friends chose to occupy government offices. Around 10 other party members are among Top-1's 'tayfa' (henchmen). Top-1, however, was the only one who managed to retain his influence and to cause the most harm. The exposure of Top-1 was his own doing. In other words, 'if you have the power to do something, do it.' The highest priority is the internal security of the organization which passed sentence on Top-1.

"Top-1 is a top-level intelligence expert. In any case, his past training implies this. He uses a 'TT' pistol and handles it well. One of Top-1's distinctive features is his close association with prostitutes. He uses this weapon extensively to blackmail his enemies. The Top-1 affair can be delayed in the event of any risk. It will require the utmost caution. Discuss the matter with the task force and report your conclusions to 110" (vol 7, file sheet 46).

After around a month of secret surveillance and preparatory work conducted by O. Mkrtchyan and A. Grigoryan under A. Zakaryan's supervision to ascertain the address of G. Saakyan's home and his daily routine, defendants A. Zakaryan, A. Grigoryan, O. Mkrtchyan, and A. Manukyan, led by A. Mndzhoyan and armed with Makarov pistols, went to the ascertained permanent residence of G. Saakyan, 53 Ovnatan Street, twice at the end of April 1994 in the same "VAZ-2121 Niva" car for the purpose of committing the murder. At that location O. Mkrtchyan and A. Manukyan watched from a distance for G. Saakyan's arrival, while A. Mndzhoyan, A. Zakaryan, and A. Grigoryan waited close to his home to commit the murder. The first time G. Saakyan was not alone when he came home, however, and a heavy rainfall interfered with their intentions the second time, so they had to wait until 2 May 1994 to kill G. Saakyan.

On that day defendants A. Grigoryan, O. Mkrtchyan, and A. Manukyan, led by A. Mndzhoyan, and without A. Zakaryan, who was too drunk to take part in the operation that day, drove to Ovnatan Street in the "VAZ-2121 Niva" at around 22:30, armed with Makarov pistols. When they arrived, A. Mndzhoyan and A. Grigoryan waited near No 53 to commit the murder, A. Manukyan stayed in the car, and O. Mkrtchyan watched for G. Saakyan at a distance from his home. He reported G. Saakyan's arrival to A. Mndzhoyan and A. Grigoryan by portable radio, after which they walked up to G. Saakyan as he got out of his "VAZ-2108" car in front of his house and killed him with 18 bullets from the IP2267 and GN2686 pistols, after which they left the scene of the crime unnoticed.

On the next day defendant A. Mndzhoyan sent an encoded written report to one of the gang leaders, A. Artsruni, on the success of the operation to kill G. Saakyan, saying that "yesterday I tried to make contact several times before I went to get the Top-1 edition, but I was unable to get through. In any case, 18,000 copies of the Top-1 journal have been printed" (vol 7, file sheet 72).

The preliminary investigation also established that the gang planned and carried out an operation to make money by selling illegal drugs in 1994, codenamed the "Bread Deal." To this end, in November 1994 the gang purchased around 5 kilograms of drugs of the heroin category from individuals not identified by the investigators, and Lebanese citizen Zhak Yesan Barsegyan then smuggled the drugs across the RA customs border to Yerevan in the false bottom of two suitcases and the false frame of a game board, after which the drugs were split up and delivered in separate lots to gang members A. Kharmandaryan, A. Zakaryan, and O. Mkrtchyan.

On the orders of defendant A. Artsruni, A. Kharmandaryan delivered 2.3 kilograms of the heroin to the city of Moscow in the Russian Federation by having O. Mkrtchyan carry them onto a plane, using the same smuggling method—hiding the drugs in the false bottom of a suitcase and the false frame of a game board. In Moscow the 830 grams of heroin hidden in the game board were sold jointly with another gang member, defendant A. Manukyan, who had flown to Moscow in advance, and the rest of the heroin was found and confiscated by personnel of the RF Federal Counterintelligence Service. The other suitcase containing heroin was found in the apartment serving as the secret meeting place and known as "Paros" at 75 Nar-Dos Street.

In addition to this, the preliminary investigation also established that defendants A. Mndzhoyan and O. Mkrtchyan went to the "Ararat" restaurant in Yerevan on 19 September 1994 for an evening of relaxation, and when they left the restaurant in a state of intoxication, defendant A. Mndzhoyan got into an argument with some residents of Yerevan near the fountains in Republic Square. These were the victims in this case, Arkadiy Ernanovich Tunyan and Bagrat Armenovich Mirakyan. During the course of the argument, A. Mndzhoyan shot A. Tunyan and B. Mirakyan eight times, with the intent to kill them, in a manner in which this disorderly conduct jeopardized the lives of many people, and inflicted grievous and life-threatening bodily injuries on the two men.

For the commission of these crimes, defendant G. Markaryan is charged with violating Section 72, subsections 4 and 8 of Section 99, and paragraph 3 of Section 213 of the RA Criminal Code, A. Artsruni is charged with violations of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code, A. Mndzhoyan is charged with violations of Section 72, subsections 4 and 8 of Section 99, subsections 2, 4, 6, and 8 of Section 15-99, paragraph 3 of Section 213, and paragraph 1 of Section 232 of the RA Criminal Code, A. Zakaryan is charged with violations of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code, O. Mkrtchyan is charged with violations of Section 72, subsections 4 and 8 of Section 99, and paragraph 1 of Section 205 of the RA Criminal Code, A. Grigoryan is charged with violations of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code, A. Kharmandaryan is charged with violations of Section 72 of the RA Criminal Code, E. Simonyan is charged with violations of Section 72 and Subsection 4 of Section 99 of the RA Criminal Code, G. Manukyan is charged with violations of Section 72 of the RA Criminal Code, G. Alaverdyan is charged with violations of Section 72 of the RA Criminal Code, T. Gabriyelyan is charged with violations of Section 72 of the RA Criminal Code, and the case against defendant A. Manukyan was dismissed in connection with his death (see the decision of 18 May 1995).

The case against Zorayr Atabekyan and the rest will be tried separately, and the preliminary investigation of this case is pending (see the decision of 28 April 1995).

Defendants G. Markaryan, A. Artsruni, A. Mndzhoyan, A. Zakaryan, A. Kharmandaryan, A. Grigoryan, O. Mkrtchyan, E. Simonyan, G. Alaverdyan, and G. Manukyan pleaded not guilty to the charges. A. Manukyan, E. Simonyan, G. Alaverdyan, and G. Manukyan admitted that they did commit the crimes, but said that they were not aware of the existence of the armed gang (vol 16, 33-37, 48-52, vol 18, 23-24, 31-33), and the rest chose not to respond to the charges (vol 16, 68, 71, 101-102, 110, vol 18, 40-44, 47-48, 85).

Defendant T. Gabriyelyan pleaded guilty to some of the charges, but said he had not taken part in the gang assaults (vol 18, 27-28).

The indictment of defendants G. Markaryan, A. Artsruni, A. Mndzhoyan, A. Zakaryan, O. Mkrtchyan, A. Grigoryan, and E. Simonyan for the organization of an armed gang and participation in this gang and in the crimes it committed is based on the following evidence gathered during the course of the preliminary investigation:

1. On the confession of defendant A. Artsruni. He said he was born in the Republic of Lebanon, where he joined the ARFD in 1981, and then moved to the Republic of Armenia in 1990, where he continued his party activities and was a member of the party's defense council. The leader of the defense council and his immediate superior was ARFD party official Grant Markaryan. In December 1992 G. Markaryan instructed him to form a secret reconnaissance structure and authorized him to recruit trusted ARFD members Armenak Mndzhoyan and Armenak Zakaryan. They then recruited other members they trusted, and more members were recruited later. A. Mndzhoyan already had a Makarov pistol, and on orders from G. Markaryan, A. Artsruni got six Makarov pistols from his deputy Vage Arutyunyan for the other members and turned them over to A. Mndzhoyan. To maintain the secrecy of the group's activities, they developed a system of codes and code numbers, assigning all members their own secret code numbers and names. G. Markaryan had code

number 03 and codename "Saddam," for example, his own code number was 110 and codename was "Varo," A. Mndzhoyan had code number 120 and codename "Glosvits," and the men who acted under his direct supervision were A. Zakaryan—code number 1201 and codenames "Bidza" ("Old Man") and "Gitun," O. Mkrtchyan—code number 1211 and codenames "Artist" and "Dzhonvey," A. Grigoryan—code number 1202 and codename "Puchur" ("Shorty"), A. Kharmandaryan—code number 1601 and codename "Tiritti," and so forth. He and A. Mndzhoyan had secret messengers, Ruzanna Sarkisyan and Ovsanna Gevorkyan, for the delivery of their reports and orders to one another. The code number of R. Sarkisyan was 110k and her codename was "Rail," and the code number of O. Gevorkyan was 12k and her codenames were "Anna" and "Osman."

Defendant A. Artsruni also testified that in September-October 1993 the "Dro" secret reconnaissance structure planned the murder of Yerevan resident Ashot Nersisyan and his wife and carried it out on 13 October 1993, planned the murder of ARFD member Gagik Saakyan in April-May 1994 and carried it out on 2 May 1994, and bought heroin-based drugs in November 1994, which were hidden in two suitcases and a game board and carried from Lebanon to Yerevan and then to the city of Moscow for sale (vol 1, file sheets 102-105, 108-111, 114-116, 118-147, vol 9, 212-217).

2. On the testimony of defendant O. Mkrtchyan that he joined the ARFD in 1990 and was a member of its "Garegin Nzhde" committee in Shaumyanskiy Rayon. This is where he met ARFD members A. Mndzhoyan, A. Zakaryan, and A. Grigoryan, and where he was invited by A. Mndzhoyan to work in the offices of the "Artsruni" company in May 1993. While he was working there A. Mndzhoyan told him that a secret reconnaissance organization was being formed in the ARFD party. Later he showed him the charter of the group known as "Dro," and they signed an agreement on membership in the group. The "Dro" group was highly militarized, with a strict chain of command and a platoon structure. The commander of the platoon was A. Mndzhoyan, and the members were Mkrtchyan himself, A. Zakaryan, A. Manukyan, A. Grigoryan, E. Simonyan, Z. Atabekyan, a young man named Gevork, and others. Each had his own code number, and all communications with superiors had to go through the platoon commander. The code numbers of the members of the group were not permanent. His last code number had been 1211, and A. Mndzhoyan's had been 120. Their superior had been A. Artsruni, with code number 110, and he did not know the name of Artsruni's superior. The group's headquarters was the territory leased from the board of the Masisskiy Rayon Fishery by the "Khanasor" company and warehouse facilities in the rural community of Ayntap, from which they later moved to the apartment they called "Paros" on the fifth floor of the five-story building on Nar-Dos Street. Defendant O. Mkrtchyan also testified that members of the "Dro" group had planned and carried out the murder of Yerevan resident A. Nersisyan and his wife in September-October 1993 under the supervision of A. Mndzhoyan, and the murder of ARFD member G. Saakyan in April-May 1994, codenamed operations "Kerob" and "Top-1." At the time of these operations they were given Makarov pistols and portable radio transceivers by A. Mndzhoyan, and during the course of the preparatory work they learned the daily routine of the people who were later to be killed, ascertained their addresses, and compiled encoded diagrams and reports in connection with this (vol 12, 207-217, 220-223, 259-265).

Testimony of the same nature was also presented by defendants A. Zakaryan, A. Grigoryan, and E. Simonyan (vol 1, 239-264, vol 2, 32-34, 38-42, 47-63, 207-217, 222-233, vol 9, 46-50, 55-61, 63-68, 76-83, 137-139, 233-241, 252-257, vol 12, 123-126, 242-249, 277-279).

3. On the Makarov pistol, RB8985, discovered during a search of the apartment of O. Markaryan and attached to the case as material evidence, the Makarov pistol with an erased serial number discovered in the apartment of A. Artsruni, the pistol of the same type, NG532L, discovered in the apartment of A. Zakaryan, the GN2686 pistol found in the apartment of A. Grigoryan, and the Makarov pistols IP2267, IP1232, VP2839, and IP1457 and the Polish submachinegun found in the safe house codenamed "Paros," apartment 75 at No 4 Nar-Dos Street (vol 18, 71).

4. On G. Markaryan's written records of his issuance of Makarov pistols to A. Mndzhoyan and other gang members, and report No 01/219 of the court-appointed handwriting expert, certifying that these notations were made by defendant G. Markaryan (vol 16, 219-222, 226).

5. On the applications for membership in the "Dro" group filled out by gang members and on the membership contracts they signed, on payrolls, on the encoded reports and records compiled by gang members, on the verification of the existence of vehicles and communication systems—the "VAZ-2121 Niva," "Moskvich," and "Zaporozhets" cars, the "Yamaha" motorcycle, and the radios, and on the verification of the existence of the common meeting place (vol 7, 1-136, 182-197).

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The indictment of G. Markaryan, A. Artsruni, A. Mndzhoyan, A. Zakaryan, O. Mkrtchyan, A. Grigoryan, and E. Simonyan for violations of Section 72 and Subsection 4 of Section 99 of the RA Criminal Code for the murders of Yerevan residents A. Nersisyan and Nune Marukhyan, a married couple, was based on the following evidence gathered during the course of the preliminary investigation:

1. On the confession of defendant A. Artsruni. He said that some men named Gayk and Vagan entered the offices of his "Artsruni" company on Bagramyan Street in August 1993 and demanded a tax payment. His refusal resulted in a disagreement between these men and A. Artsruni, A. Kharmandaryan, and O. Mkrtchyan, during the course of which the men named Gayk and Vagan and their friend Ashot started a fight, they broke the office windows, and the man named Ashot hit O. Mkrtchyan on the head with something, causing an injury requiring first aid. After the incident A. Artsruni learned the identities of these men and asked his superior, G. Markaryan, for permission to punish them—to kill these men, but G. Markaryan agreed only to the murder of Ashot and issued the order to find and kill him, while he refused permission to punish Gayk and Vagan, saying that they were ARFD members and would have to be expelled from the party before they could be punished. A. Artsruni went on to testify that after he had received permission from G. Markaryan, he instructed A. Mndzhoyan to learn Ashot's exact address and to kidnap him and bring him to the headquarters in Ayntap, where he was to be interrogated to learn what kind of assignment he had been given, after which he would be killed and his body would be concealed. The operation was known as "Kerob," and after the completion of this operation—i.e., after the murder of A. Nersisyan—he received a written report on 13 October 1993. From it he learned that it had been impossible to take Ashot to the headquarters, as a result of which he was killed on the spot, in his apartment, that his wife was also killed at that time, and that the men who actually committed the murder were A. Mndzhoyan, A. Zakaryan, and A. Grigoryan. A. Artsruni then compiled a written report and sent it to G. Markaryan to notify him of the details of the murder that had been reported to A. Artsruni. Soon afterward he learned that another individual had been found guilty of the murders of A. Nersisyan and his wife, and he was pleased that the matter had ended in this way (vol 1, 118-147, vol 9, 212-217, 247-250).

2. On a brief statement by A. Mndzhoyan, in which he said that he had taken part in the murders of Yerevan residents Ashot Nersisyan and his wife and described the circumstances of the murders. Later, however, A. Mndzhoyan refused to testify against the "Dro" group and the crimes its members had committed and would testify only to the attempted homicide he had committed outside the "Dro" group (vol 9, 148-149).

3. On the confessions of defendants A. Zakaryan and A. Grigoryan. A. Zakaryan said that he had heard from O. Mkrtchyan and A. Mndzhoyan about the incident in the offices of the "Artsruni" company and that O. Mkrtchyan had been hit on the head with something, after which he was ordered to ascertain the exact address and identity of the assailant, to which end A. Mndzhoyan put E. Simonyan and Z. Atabekyan under his command. They searched for Ashot together and separately for around a month and a half, went to his previous place of residence, and learned his new address—apartment 15 at No 35 Shakhverdyan Street—and his telephone number and began following him. Z. Atabekyan even managed to get into A. Nersisyan's apartment and to draw a diagram of the rooms and the locations of the furniture in them. They compiled written reports on the work they had done and gave them to A. Mndzhoyan. After all of this had been done, they received Makarov pistols from A. Mndzhoyan on the evening of 12 October 1993 and drove to No 35 Shakhverdyan Street in the "Niva" registered in A. Mndzhoyan's name with A. Grigoryan, E. Simonyan, Z. Atabekyan, and A. Manukyan. They made several calls to Ashot's home, but no one answered the phone. After they had waited on the street a little longer, A. Mndzhoyan ordered Edik, Zorik, and Artavazd to wait outside and told A. Zakaryan and "Puchur" Armen—A. Grigoryan—to go upstairs with him to Ashot's apartment. They told Ashot that one of his friends had sent them to ask him about the sale of a car. He invited them in, and they spent several hours in conversation with Ashot while he smoked hashish and they tried to persuade him to go downstairs to the courtyard, from which they planned to drive him to headquarters and ask him why he had hit O. Mkrtchyan, who was waiting for them there. Ashot refused to go outside, and then they began firing shots at him, first A. Mndzhoyan and then the others. Ashot's wife, who came into the room at that time, was also killed. Almost identical testimony was given by defendant A. Grigoryan, who was able, during an experiment conducted as part of the preliminary investigation, to show investigators the building where A. Nersisyan lived and the apartment and room in which A. Nersisyan and his wife were killed, give them a detailed description of the circumstances, and tell them the exact locations where they and the victims had been standing or sitting at the time of the murders (vol 1,

239-264, vol 2, 207-217, 222-233, vol 9, 56-61, 76-83, 137-139, 233-234, 236-241, 252-257, vol 12, 24[illegible]-249, 277-279).

4. On the confessions of defendants O. Mkrtchyan and E. Simonyan. The former testified that when he went to the "Artsruni" company one day in August 1993, someone came into the bookkeeper's office and said that their men were being beaten up outside. He went out to the street right away and saw that Gayk and Vagan, a pair of brothers he recognized, were fighting with A. Artsruni and A. Kharmandaryan. He tried to break up the fight, but at that time a car stopped on the street and a man got out of the car and hit him with something in the back of the head, as a result of which he lost consciousness. Later he told A. Mndzhoyan and A. Zakaryan about the incident. Then he and A. Artsruni went to see the brothers Gayk and Vagan and learned that the name of the man who had hit him was Ashot, after which A. Artsruni instructed A. Mndzhoyan to find out Ashot's name, address, contacts, and so forth. All of this was called Operation "Kerob." After all of the necessary information had been gathered, when he was in the headquarters in Ayntap in the first half of October, he learned that the men were supposed to go and get Ashot. They did not take him along because Ashot might have recognized him. At around 22:00 A. Zakaryan, "Puchur" Armen, Edik, Zorik, and Artavazd, led by A. Mndzhoyan, went to get Ashot in A. Mndzhoyan's "Niva" and returned at around 3:00 or 4:00 without Ashot. When he asked where Ashot was, they said they had killed him and his wife (vol 2, 32-34, 38-42, 47-63, vol 9, 46-50, 64-68, vol 12, 123-126, vol 16, 48-51).

During an experiment conducted as part of the preliminary investigation, defendant E. Simonyan identified the building and entrance to A. Nersisyan's home, and at the scene of the crime he gave investigators detailed descriptions and showed them everything he had referred to in his testimony (vol 12, 38-49).

5. On the testimony of defendant A. Artsruni when he was questioned in the presence of defendant G. Markaryan, during which he reiterated his earlier statements in G. Markaryan's presence and repeated the circumstances under which G. Markaryan had instructed him to kill A. Nersisyan in the operation they called "Kerob," during the commission of which they also killed A. Nersisyan's wife (vol 12, 38-49).

6. On the testimony of defendants A. Artsruni, A. Zakaryan, A. Grigoryan, and E. Simonyan when they were interrogated in the presence of A. Mndzhoyan, during which they reiterated their statements in A. Mndzhoyan's presence and described all of their own actions and the actions of A. Mndzhoyan during the preparations and the commission of the murders of A. Nersisyan and his wife (vol 9, 236-241, 247-257, vol 12, 123-126).

7. On 42 written reports compiled by A. Artsruni, A. Mndzhoyan, A. Zakaryan, E. Simonyan, and others during the preparations and commission of the murders of A. Nersisyan and his wife, codenamed Operation "Kerob," and the diagrams Z. Atabekyan drew of A. Nersisyan's apartment and the locations of his furnishings (vol 10, 291-294).

8. On forensic reports No 801 of 14 October 1993 and No 890 of 7 November 1993, stating that the cause of death of A. Nersisyan and his wife N. Marukhyan were the acute disruption of important craniocerebral functions and internal bleeding caused by gunshot wounds inflicted at close range in the head, neck, chest, stomach and other parts of the body (vol 10, 295-307, vol 11, 7-25).

9. On report No 04/457-1047 of 9 November 1993 by the court-appointed ballistics expert, stating that nine foreign bodies removed from various parts of the bodies of A. Nersisyan and N. Marukhyan were Makarov pistol bullets and were fired by three different pistols of this type (vol 10, 291-294).

10. The charge against defendants G. Markaryan, A. Artsruni, A. Mndzhoyan, and the others is also based on the cartridge cases and bullets and the Makarov pistol, IP2267, attached to the case as material evidence, the crime scene examination record, the testimony of witnesses Musheg Mikayelyan and others, and other evidence pertaining to this case (vol 10, 2-6, vol 12, 138-141, vol 18, 71).

The indictment of A. Markaryan, A. Artsruni, A. Mndzhoyan, A. Zakaryan, O. Mkrtchyan, and A. Grigoryan on Section 72 and Subsection 8 of Section 99 of the RA Criminal Code for the murder of Yerevan resident Gagik Saakyan by the gang is based on the following evidence gathered during the course of the preliminary investigation:

1. On the confession of A. Artsruni. He said that his immediate superior, G. Markaryan, received the order to kill ARFD member Gagik Saakyan in April 1994. When G. Saakyan was G. Markaryan's deputy, he conducted "subversive" activity in the party, and this was the reason for this decision. The assassination of G. Saakyan was codenamed Operation "Top-1," and A. Artsruni assigned it to A. Mndzhoyan and the men under his command. During the preparations for the operation they periodically received written reports from A. Mndzhoyan on the work that had been done and issued him written orders. On 3 May 1994 A.

Artsruni received a written report from A. Mndzhoyan on the successful completion of Operation "Top-1"—i.e., on the murder of G. Saakyan. On that day he went to the ARFD Central Committee and walked into G. Markaryan's office to tell him about the successful completion of Operation "Top-1," but other people were already in the office and were engaged in a loud discussion of G. Saakyan's murder. He did not wish to speak candidly in the presence of the others, so he loudly asked G. Markaryan whether he knew who had killed G. Saakyan and then smiled. G. Markaryan smiled in response, and this is how A. Artsruni notified him of the successful completion of the operation (vol 9, 212-217, 247-250, vol 12, 38-49).

2. On the testimony of defendant A. Grigoryan. He said that in spring 1994, when they were moving from their headquarters in Ayntap to the apartment they called "Paros" on the fifth floor of a five-story building on Nar-Dos Street, A. Mndzhoyan said he had received an order to kill ARFD member Gagik Saakyan and that the codename of the operation would be "Top-1." He knew G. Saakyan and was in the ARFD "Makhluto" brigade with him. At the request of A. Mndzhoyan, he showed him and O. Mkrtchyan the home of G. Saakyan. After that he did not participate in the other preparatory work, but he did drive to G. Saakyan's home twice with A. Mndzhoyan, A. Zakaryan, O. Mkrtchyan, and A. Manukyan, where they, armed with Makarov pistols, planned to ambush him and kill him, but they were unable to do this. A. Zakaryan did not go with them the last time, on the day of the murder. On that day A. Grigoryan and A. Mndzhoyan, armed with Makarov pistols, were waiting near G. Saakyan's home at 53 Ovnatan Street when O. Mkrtchyan warned them that G. Saakyan was on his way home. When he parked his car in front of the house and got out of it, A. Grigoryan and A. Mndzhoyan approached him and A. Mndzhoyan called out his name. As soon as G. Saakyan turned around, both of them fired nine times each and killed G. Saakyan. After the murder had been committed, they left the scene of the crime in the "Niva" registered to A. Mndzhoyan.

During an experiment conducted as part of the preliminary investigation, defendant A. Grigoryan showed investigators the home of G. Saakyan, and at the scene of the crime he repeated his testimony in detail, showed where they and G. Saakyan were standing at the time of the murder, and related the circumstances of the crime (vol [number omitted] 207-217, 222-223, vol [number omitted] 76-83, 252-257, vol 12, 242-249).

Identical testimony about himself was given by defendant A. Zakaryan, who also said that the murder of G. Saakyan could not be committed at the time of the ambushes organized with his participation, that he was not taken along on the mission on the day of the crime because he was too drunk, and the murder of G. Saakyan was committed without his participation. After that he was subject to disciplinary penalties (vol 1, 235-236, 239-264, vol 9, 55-61, 137-139, 233-234, 236-241).

3. On the testimony of defendant O. Mkrtchyan that he received an order from A. Artsruni in April 1994 to arrange for the murder of G. Saakyan, codenamed Operation "Top-1." Although G. Saakyan was a member of the ARFD, he was conducting "subversive" activity within the party, and this was the reason for the decision to eliminate him. On the instructions of A. Mndzhoyan, O. Mkrtchyan observed the home of G. Saakyan and the surrounding areas, drew the appropriate diagram, followed G. Saakyan and members of his family, and compiled written reports on all of these matters and gave them to A. Mndzhoyan, after which A. Mndzhoyan said that he had received the order to carry out Operation "Top-1"—i.e., to kill G. Saakyan.

Armed with Makarov pistols, five of them—he, A. Mndzhoyan, A. Zakaryan, A. Grigoryan, and A. Manukyan—went to G. Saakyan's home twice in the "Niva" registered to A. Mndzhoyan, but one time he was not alone when he came home, and the second time a heavy rainfall thwarted the operation, and they were not able to kill G. Saakyan until 2 May.

On that day they took up their positions near the building at 22:30 and began to wait for him. They did not take A. Zakaryan along because he had been so drunk that evening. In accordance with the roles assigned to them by A. Mndzhoyan, A. Mndzhoyan and A. Grigoryan were to fire the shots at G. Saakyan while O. Mkrtchyan stood at the intersection of Sebastiya and Ovnatan streets and reported the arrival of G. Saakyan to them on a portable radio transceiver he had been given by A. Mndzhoyan, after which A. Mndzhoyan and A. Grigoryan committed the murder (vol 12, 207-217, 220-223, 259-265).

4. On a brief statement by defendant A. Mndzhoyan that he did participate in the murder of G. Saakyan and would testify to this in detail. Later, however, A. Mndzhoyan refused to testify against the "Dro" group and the crimes it had committed and testified only to his own homicide attempt committed outside the "Dro" group (vol 9, 148-149).

5. On the testimony defendant A. Artsruni gave when he was interrogated in the presence of G. Markaryan, when he repeated his earlier statements in G. Markaryan's presence and reported that the murder of G. Saakyan was planned and committed on the orders of G. Markaryan (vol 12, 38-49).

6. On the testimony defendants A. Artsruni, A. Zakaryan, A. Grigoryan, and E. Simonyan gave when they were interrogated in the presence of A. Mndzhoyan, at which time they described the circumstances of the murder of G. Saakyan and described their own actions and the actions of A. Mndzhoyan in detail (vol 9, 236-241, 247-257, vol 12, 123-126).

7. On the record of a meeting of the Central Committee of the ARFD Party, according to which the Central Committee discussed the proposal of the "Nikol Dumyan" committee on the expulsion of G. Saakyan from the party and resolved to turn the matter over to the party's judicial organ (vol 7, dossier sheets 45-79).

8. On the reports written and the diagrams drawn by defendants A. Artsruni, A. Mndzhoyan, O. Mkrtchyan, and the rest during the preparations and commission of the murder of G. Saakyan, codenamed Operation "Top-1."

9. On forensic report No 317 of 20 June 1994, according to which G. Saakyan died as a result of the acute disruption of vital cerebral functions, caused by two shots fired at his head from a gun. Besides this, four other gunshot wounds were discovered in his neck, upper arm, and other parts of his body (vol 5, 100-103).

10. On report No 423 of 15 May 1994 by the court-appointed ballistics expert, stating that the 17 cases and 8 bullets found at the scene of the crime are cases and bullets from Makarov pistol rounds and were fired from two pistols of this type (vol 16, 173-178).

11. On report No 95/220 of 31 March 1995 of the court-appointed ballistics expert, stating that five of the cartridge cases found at the scene of G. Saakyan's murder were fired from the IP2267 Makarov pistol given to A. Mndzhoyan personally by G. Markaryan and later confiscated during a search of apartment 75 at No 4 Nar-Dos Street, serving as the headquarters of the gang, and four others were fired from the GN2686 pistol which was found during a search of the apartment of the other defendant A. Grigoryan (vol 5, 2-6, 9-18, vol 3, 241-248, vol 18, 71).

12. Other evidence of the guilt of defendants G. Markaryan, A. Artsruni, A. Mndzhoyan, and the others includes the crime scene examination record, the verification of the existence of the cases and bullets attached to the case as material evidence, and other evidence pertaining to the case (vol 3, 241-248, vol 5, 2-6, 9-18, vol 18, 71).

The indictment of A. Artsruni, A. Kharmandaryan, O. Mkrtchyan, and A. Zakaryan on Section 72 of the RA Criminal Code for the illegal acquisition of narcotics of the heroin category, the smuggling of these drugs from the Republic of Lebanon to the Republic of Armenia, and from there also to the city of Moscow in the Russian Federation, and their storage and sale is based on the following evidence gathered during the course of the preliminary investigation:

1. On the confession of defendant A. Artsruni that he supervised the delivery of drugs of the heroin category from Lebanon to Armenia and then to Moscow for sale there in 1994 by the "Dro" group. He explained that the heroin was purchased in the Lebanese city of Beirut from a man named Pargev. With the help of a man named Zhak, in November 1994 all of the heroin, hidden in the secret compartments of two specially designed suitcases and one game board, was delivered in secret to Yerevan, where first A. Kharmandaryan and O. Mkrtchyan, and then O. Mkrtchyan and A. Zakaryan, acting on A. Artsruni's instructions, received the heroin from Zhak in separate lots—first one suitcase and the board and then the second suitcase. O. Mkrtchyan took the 2.5 kilograms of heroin hidden in one suitcase and the game board to Moscow on a plane and turned it over to A. Manukyan, who had been sent to Moscow approximately 15 days earlier to sell the heroin, and the second suitcase with the heroin was kept in apartment 75 at No 4 Nar-Dos Street—in "Paros." It was also supposed to be sent to Moscow after the sale of the heroin that had been delivered to Moscow earlier, but the suitcase was confiscated during an unexpected search of the apartment. A. Artsruni also reported that a short time after O. Mkrtchyan had taken the first portion of the heroin to Moscow, A. Manukyan called from there and said that he had already found a buyer for the heroin in the game board and that he would receive the payment for it—57,000 U.S. dollars—from the buyer soon. The cost of all the heroin was expected to amount to 150,000 U.S. dollars (vol 1, 102-105, 108-111, 114-116, 118-147, vol 9, 247-250).

During the initial period of the preliminary investigation, similar testimony was also given by defendant A. Kharmandaryan, but later he changed his statement and, although he had already admitted that he and O. Mkrtchyan had received the two suitcases and game board containing the heroin from a man named Zhak, and acknowledged the actions he had committed when the heroin was sent to Moscow accompanied by O. Mkrtchyan, he began to say that O. Mkrtchyan had been alone when he went to see Zhak and received the suitcases from him and that he himself had not known about the heroin. In a conflicting statement, defendant O. Mkrtchyan admitted his delivery of the suitcase and game board to Moscow on 8 November 1994, but said that the suitcase and board to be taken to Moscow had been given to him personally by A. Kharmandaryan and that he himself did not know about the heroin hidden in them until after he had been arrested in Moscow (vol 1, 112-120, 83-85, 90-93, 96-99, vol 9, 140, vol 12, 259-265).

The fact of the delivery of the suitcase and game board containing heroin to Moscow by O. Mkrtchyan is also based on the testimony of defendant A. Manukyan, and the fact of the receipt of the second suitcase with the heroin from a man named Zhak by A. Kharmandaryan and A. Zakaryan and the delivery of this suitcase to the gang's headquarters at that time, apartment 75 in building No 4 on Nar-Dos Street, is also established by the testimony of A. Zakaryan (vol 1, 235-236, 239-264, vol 12, 193, 287-288, vol 16, 33-37).

2. On the document filed by the customs personnel of Vnukovo Airport in the city of Moscow in the Russian Federation on 11 November 1994 to report that a narcotic substance of the heroin category had been found in the frame of a suitcase and the frame of a game board belonging to passenger O. Mkrtchyan on the flight from Yerevan to Moscow, and that the drugs had not been confiscated so that further undercover investigations could be conducted (vol 8, file sheet 208), and also on the claim check, dated 8 November 1994, which O. Mkrtchyan received from the corresponding services of that airport on 8 November 1994 and other documents stating that the suitcase belonged to passenger O. Mkrtchyan, to whom it was returned (vol 8, file sheets 209-212).

3. On the Moscow police record of the discovery and confiscation of the abovementioned suitcase containing heroin in an apartment rented in Moscow by the Babelyan family, relatives of O. Mkrtchyan, and on the testimony of witnesses Karen, Armen, and Natalya Babelyan that the suitcase belonged to O. Mkrtchyan (vol 8, file sheets 11-12, 106-119).

4. On numerous tape recordings, authorized by order of the Moscow Municipal Court in the Russian Federation on 30 November 1994, of the telephone conversations of defendants O. [sic] Markaryan and A. Manukyan, indicating that O.[sic] Markaryan and A. Manukyan had conversations with various individuals about the sale of the heroin and the payment for it (vol 8, file sheets 21-105).

5. On report No 9/188 of 19 December 1994 of the court-appointed physico-technical expert, stating that 1 kilogram and 362 grams of a narcotic substance of the heroin category had been found in the abovementioned suitcase (vol 8, file sheets 233-242).

6. On report No 7/37 of 7 March 1995 of the expert on the powder smuggled from Beirut to Yerevan hidden in the frame of the suitcase and found and confiscated in apartment 75 at No 4 Nar-Dos Street—"Paros," stating that this powder, weighing 1 kilogram and 650 grams, is a narcotic substance of the heroin category (vol 12, file sheets 1-3).

7. On the suitcases with secret compartments for heroin and the more than 3 kilograms of narcotic drugs of the heroin category found in them, discovered in the cities of Moscow and Yerevan and attached to the case as material evidence (vol 8 file sheet 242). The rest of the heroin was not recovered because it had already been sold.

The indictment of defendant A. Mndzhoyan on subsections 2, 4, 6, and 8 of Section 15-99 and paragraph 1 of Section 232 of the RA Criminal Code for the attempted murder of Yerevan residents Arkadiy Tunyan and Bagrat Mirakyan, and of defendant O. Mkrtchyan on paragraph 1 of Section 205 of the RA Criminal Code for harboring him, is based on the following evidence gathered during the course of the preliminary investigation:

1. The partial admission of the defendant himself, A. Mndzhoyan, that he went to the "Ararat" restaurant at around 21:00 on 19 September 1994 to see his friend Khachik, who was working there as a musician. A short time after he sat down at one of the tables in the restaurant, some young people who had been in the restaurant long enough to get drunk approached him and tried to start an argument with him on various pretexts, but he did not indulge them, and there was no argument.

A short time later he left the restaurant, intending to go home, but the young men followed him out, and two of them started a fight with him at the entrance to the restaurant and began slapping him in the face. Khachik and another man who had been with them tried to calm them down, and A. Mndzhoyan managed to walk away from them, but when he reached the fountains in Republic Square two of them ran up to him and started punching him. Then both of them drew their guns and aimed them at him. He managed to take the gun out of one man's hand, took a few steps back, and then fired all of the bullets in the gun at them, after which he threw the gun down and ran away from the scene of the crime (vol 9, 191-192).

In contrast to A. Mndzhoyan, the other defendant in the case, O. Mkrtchyan, testified that he was with A. Mndzhoyan at the time of the incident, and in reference to the shooting he said that when he and A. Mndzhoyan left the restaurant to avoid a fight and approached the fountains in the square, two of the young men who had been arguing with them chased them and one reached for the back pocket of his trousers. At that time A.

Mndzhoyan started shooting at them from a distance of about two meters and at other young men who were approaching. After that they ran away and hid for around 10 days in their dacha in the rural community of Kharberd, after which they went to the city of Odessa (vol [number omitted] 207-217, 220-223, 250-265).

2. On the testimony of the acknowledged victims, Yerevan residents Arkadiy Tunyan and Bagrat Mirakyan, given in private and in the presence of A. Mndzhoyan. They reported that they went to the restaurant that day to celebrate the birthday of one of their friends. Two men, one with a beard, were seated at one of the tables. They learned in a conversation later that his name was Armen. When the dancing started Armen invited everyone to sit at his table. After they had sat with him for a short time and had some drinks, they left the restaurant to go home, but when they were leaving Armen started cursing the Sixth Administration of the RA Ministry of Internal Affairs, and they were irritated by this because one of their friends worked in that administration. This led to an argument, but it did not last long, and Armen and his friend started walking in the direction of the fountains in the square, where Armen began cursing them after he had exchanged a few words with his friend. They approached Armen to learn why he was so angry, but he unexpectedly drew a gun and began shooting at them. The first to fall was Arkadiy, and Armen continued to shoot at him. Then Bagrat was wounded and fell, and Armen and his friend ran away, still firing the gun (vol 6, 6-7, 68-71, 73-76, vol 12, 151-162).

3. On the testimony of witnesses, policemen Aleksan Petrosyan and Valeriy Aperyan from the Slandaryanskiy Rayon Internal Affairs Department, that while they were on duty on 19 September 1994, they heard the sound of shots being fired near the fountains in Republic Square at around 22:30, and while they were running in that direction they saw two wounded young men lying near the fountains and another two young men running away. Realizing that the men who were running away were the ones who had fired the shots, they fired some warning shots into the air and started chasing the men, but they lost sight of them because it was so dark and were unable to arrest them. They returned to the wounded men and took them to the hospital (vol 6, file sheets 8, 56-57, 81-83).

4. On the record of the identification proceedings held during the course of the preliminary investigation, stating that victims A. Tunyan and B. Mirakyan had identified defendant A. Mndzhoyan from a photograph and said that he was the man who shot them (vol 6, 95-96, 105-106).

5. On reports No 476 of 10 October 1994 and No 491 of 11 October 1994, stating that penetrating gunshot wounds to the chest, forearm, and right hip and a superficial wound to the groin had been found on victim A. Tunyan, and gunshot wounds to the sinistral inguinal region and small intestine, which, because they are life-threatening, are classified as gunshot wounds causing grievous bodily injuries, had been found on B. Mirakyan (vol 6, 148-150, 152-154).

6. On report No 424/972 of 21 November 1994 of the court-appointed comprehensive trace evidence and ballistics experts, stating that the damage to the clothing of A. Tunyan and B. Mirakyan had been caused by bullets from a 9 mm gun. According to the same report, all 12 of the cartridge cases found at the scene of the crime were shot from a Makarov pistol, and eight were fired from one gun while the other four were fired from two other guns of this type (vol 6, 148-150, 152-154).

7. On report No 95/220 of 31 March 1995 of the court-appointed ballistics expert, stating that 8 of the 12 cartridge cases found at the scene of the crime had been fired from the IP2267 Makarov pistol A. Mndzhoyan had been given by G. Markaryan (vol 16, 173-178).

8. The crime of defendant A. Mndzhoyan is also corroborated by the testimony of witnesses Khachik Gezalyan, Ashot Akopyan, and Dzhulbetta Martikyan, the IP2267 Makarov pistol, the clothing of the victims, the cartridge cases found at the scene of the crime, and the bullets removed from the body of A. Tunyan, attached to the case as material evidence, the crime scene examination report, and other evidence pertaining to the case (vol 6, 11-12, 23-28, 39-43, 44-47, 89-91, 107-114, vol 16, 198-199, vol 18, 71).

The indictment of defendants G. Manukyan, T. Gabriyelyan, and G. Alaverdyan on Section 72 of the RA Criminal Code for participation in the armed gang organized by G. Markaryan and A. Artsruni is based on the following evidence gathered during the course of the preliminary investigation:

1. On the confession of defendant T. Gabriyelyan, who stated that he was introduced to Armen Mndzhoyan by his friend A. Grigoryan, and that this man then introduced him to the charter of the "Dro" group, after which T. Gabriyelyan joined the group in fall 1993 and carried out the orders of Ovik Mkrtchyan and was assigned the secret code number 1213. He did not have a weapon himself, but he always saw group members A. Mndzhoyan, A. Zakaryan, and A. Mkrtchyan with Makarov pistols. They met in their headquarters in the rural community of Ayntap in Masisskiy Rayon, where they often fired their guns "for their own amusement." In the winter of 1993-94, on the orders of O. Mkrtchyan he

and A. Grigoryan secretly watched a foreign Armenian living at the end of Komitas Street and gave O. Mkrtchyan written reports on him. From conversations between Ovik and Mndzhoyan, he deduced that they wanted to eliminate this man.

In addition, one day he watched another man near the "Malatiya" market, also on O. Mkrtchyan's instructions (vol 2, 117-117a, 120-125, 129-136, 138-139, vol 12, 10-12, vol 18, 27-28).

2. On the testimony of defendant G. Alaverdyan that he learned of the secret "Dro" group in fall 1993 from A. Mndzhoyan, who told him that this group was one of the links of Dashnaktsupon. He filled out the necessary application and joined the group. Like the rest, he also had a secret code number—1203. The group leader was A. Mndzhoyan, who also had a superior, named Arsen. On the orders of A. Mndzhoyan, in fall 1993 he searched for a man named Ashot in the "Tigran Mets" detachment and on the grounds of the new church in Marash and collected information about him. At the request of A. Mndzhoyan and A. Zakaryan he then compiled written reports on this information. At their request, he wrote "Kerob" instead of Ashot's name in these reports. They told him that this Ashot was an enemy of the people and had to be punished. In addition, at the request of A. Mndzhoyan he drove an individual known as "Frik" to the headquarters in Masis, where the man was beaten and was warned to pay a debt. In January 1994 he asked A. Zakaryan about "Kerob." That man told him that he had been killed. Another group member he spoke with was Edik Simonyan, who advised him to get away from these people because they commit dangerous acts. Edik also told him that "Kerob" had been killed (vol 2, 269-274, 276-291, vol 9, 17-20, 131-133, vol 18, 23-24).

3. On the testimony of G. Manukyan. He said that he joined the ARFD in 1990 and had known party member G. Markaryan since that time. In 1992 G. Markaryan suggested that he and A. Artsruni form a reconnaissance organization. A. Artsruni put him in charge of the archives of this group. At the end of March 1994 A. Artsruni gave him a file and left for Beirut. When he read the contents of the file, he learned about the involvement of the "Dro" group in the murder of "Kerob," after which he decided not to work for A. Artsruni any longer (vol 2, 234-238, 242-247, 250-253, 256-258, vol 9, 198-210, vol 12, 202-203, vol 18, 31-33).

4. On the testimony of defendant A. Grigoryan that he told G. Gabriyelyan about the murder of A. Nersisyan and his wife, but said that he had committed the murder alone (vol 2, 207-217, 222-233).

5. On the applications for membership in the secret "Dro" group filled out by defendants T. Gabriyelyan and G. Alaverdyan, and on report No 01/150 of 24 March 1995 of the court-appointed handwriting expert, stating that the applications filled out in the names of T. Gabriyelyan and G. Alaverdyan were written by those individuals (vol 7, 1-136, vol 16, 156-166).

The charge that defendant O. Mkrtchyan forged a passport with A. Zakaryan's photograph and the charge that defendants G. Markaryan, A. Mndzhoyan, and A. Zakaryan used obviously fraudulent passports are based on the following evidence gathered during the course of the preliminary investigation:

1. On the verification of the existence of obviously fraudulent passports 42 N 0058378, VIISL N 626353, XXIZhG N 633612, and 21 N 0087028, with the photographs of defendants G. Markaryan, A. Mndzhoyan, and A. Zakaryan but in the names of other individuals, discovered and attached to the case as material evidence.

2. On the records of the discovery of the abovementioned forged passports on the person or in the living quarters of the defendants (vol 1, 72-77, 226-232, vol 9, 110-111).

3. On reports No 1040 of 6 December 1994, No 1066 of 21 December 1994, No 204 of 17 March 1995, and No 248 of 28 March 1995 of the court-appointed technical document experts, stating that the original photographs in passports VIISL 626353 in the name of Aleksandr Gurgenovich Tovmasyan and XXIZhG N 633612 in the name of Islam Shamil ogly Babayev had been replaced, and that the photographs of defendants G. Markaryan and A. Zakaryan which had been glued into the passports in place of the originals were notarized with a fraudulent stamp (vol 3, 207-212, 219-229, vol 16, 120-123, 234-238).

4. On the fraudulent metallic stamp for the notarization of photographs discovered during a search of the apartment of defendant O. Mkrtchyan and attached to the case as material evidence, and on expert report No 248 of 28 March 1995 stating that the passport with the photograph of defendant A. Zakaryan but in the name of I. Babayev was notarized precisely with that fraudulent stamp (vol 1, 25-27, vol 16, 234-238, vol 18, 71).

5. The guilt of the defendants is also established by the testimony of witness Asatur Meloyan (vol 4, 96-97) and other documents in the case file (vol 9, file sheets 109-110).

On the basis of the information above [blank line]

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1. Grant Ovsepovich Markaryan, born in the Iranian city of Isfahan in 1958, an Armenian by nationality, a citizen of the Islamic Republic of Iran, in good physical health, with a partial higher education, married with two dependent children, unemployed, with no prior convictions, who lived at 14 S. Dayeti Street in Yerevan, apartment 41, and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with creating the secret group known as "Dro"—a permanent armed gang, to which Armenak Mkrtchyan, Armenak Zakaryan, Armen Grigoryan, Ovanes Mkrtchyan, Artavazd Manukyan, Edik Simonyan, Zorayr Atabekyan, Ara Kharmandaryan, Gegam Manukyan, Gevorg Alaverdyan, and Tatul Gabriyelyan also belonged—as part of the ARFD defense council when he headed the defense council of the ARFD Party, with Arsen Arayevich Artsruni, a member of the same council, in December 1992 with the aim of assaulting and punishing certain individuals and of committing other premeditated crimes.

In 1993 and 1994 the gang planned and committed premeditated homicides and other crimes connected with the acquisition and smuggling of illegal drugs, with specific roles assigned to each of its members.

In September 1993, for example, the murder of Yerevan resident Ashot Nersisyan, codenamed Operation "Kerob" and committed on the night of 13 October in his home, apartment 15 at No 35 Shakhverdyan Street, was planned and organized in advance. On that day gang members A. Mndzhoyan, A. Zakaryan, and A. Grigoryan forced their way into the apartment with Makarov pistols, while E. Simonyan, A. Manukyan, and Z. Atabekyan secured the completion of the operation from outside. A. Mndzhoyan, A. Zakaryan, and A. Grigoryan killed A. Nersisyan and his wife Nune Marukhyan with 11 shots fired from three guns.

In April 1994 the gang planned the murder of party member Gagik Saakyan, codenamed Operation "Top-1," for "subversive" activity within the ARFD.

At around 22:30 on 2 May 1994 gang members A. Mndzhoyan and A. Grigoryan killed G. Saakyan in front of his home, No 53 Ovnatan Street, with 18 shots from two guns, after which they left the scene of the crime, without being seen by any witnesses, along with O. Mkrtchyan and A. Manukyan, who had served as lookouts in accordance with their assigned roles.

In November 1994 the gang acquired around 5 kilograms of illegal drugs of the heroin category, which were then smuggled, hidden in two suitcases and a game board, from the Lebanese city of Beirut to Yerevan, after which 2.3 kilograms of the contraband drugs were taken in November by gang member O. Mkrtchyan to the city of Moscow, where he and A. Manukyan sold 830 grams and the rest of the drugs were discovered by Moscow city police.

In addition, G. Markaryan, as a citizen of Iran with the corresponding identification papers, acquired and used forged Soviet passport VIISL N 626353, bearing the name of Aleksandr Gurgenovich Tovmasyan but with his own photograph, in the beginning of 1991, and then acquired a forged Armenian citizen's overseas passport, 42 N 0058378, in the name of Asatur Pargevovich Meloyan, but again with his own photograph, on 21 April 1993.

By doing all of this, defendant G. Markaryan committed crimes in violation of Section 72, subsections 4 and 8 of Section 99, and paragraph 3 of Section 213.

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By doing all of this, defendant G. Markaryan committed crimes in violation of Section 72, subsections 4 and 8 of Section 99, and paragraph 3 of Section 213.

2. Arsen Arayevich Artsruni, born in the Lebanese city of Beirut in 1961, an Armenian by nationality, in good physical health, with a higher education, married with one dependent, employed as the director of the "Artsruni" company, with no prior convictions, who lived at 38 Isakyan Street in Yerevan, apartment 56, and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with creating the secret group known as "Dro"—a permanent armed gang, to which Armenak Mkrtchyan, Armenak Zakaryan, Armen Grigoryan, Ovanes Mkrtchyan, Artavazd Manukyan, Edik Simonyan, Zorayr Atabekyan, Ara Kharmandaryan, Gegam Manukyan, Gevorg Alaverdyan, and Tatul Gabriyelyan also belonged—as part of the ARFD defense council when he headed the defense council of the ARFD Party [sic], with Arsen Arayevich Artsruni [sic], a member of the same council, in December 1992 with the aim of assaulting and punishing certain individuals and of committing other premeditated crimes.

In 1993 and 1994 the gang planned and committed premeditated homicides and other crimes connected with the acquisition and smuggling of illegal drugs, with specific roles assigned to each of its members.

In September 1993, for example, the murder of Yerevan resident Ashot Nersisyan, codenamed Operation "Kerob" and committed on the night of 13 October in his home, apartment 15 at No 35 Shakhverdyan Street, was planned and organized in advance. On that day gang members A. Mndzhoyan, A. Zakaryan, and A. Grigoryan forced their way into the apartment with Makarov pistols, while E. Simonyan, A. Manukyan, and Z. Atabekyan secured the completion of the operation from outside. A. Mndzhoyan, A. Zakaryan, and A. Grigoryan killed A. Nersisyan and his wife Nune Marukhyan with 11 shots fired from three guns.

In April 1994 the gang planned the murder of party member Gagik Saakyan, codenamed Operation "Top-1," for "subversive" activity within the ARFD. At around 22:30 on 2 May 1994 gang members A. Mndzhoyan and A. Grigoryan killed G. Saakyan in front of his home, No 53 Ovnatan Street, with 18 shots from two guns, after which they left the scene of the crime, without being seen by any witnesses, along with O. Mkrtchyan and A. Manukyan, who had served as look-outs in accordance with their assigned roles.

In November 1994 the gang acquired around 5 kilograms of illegal drugs of the heroin category, which were then smuggled, hidden in two suitcases and a game board, from the Lebanese city of Beirut to Yerevan, after which 2.3 kilograms of the contraband drugs were taken in November by gang member O. Mkrtchyan to the city of Moscow, where he and A. Manukyan sold 830 grams and the rest of the drugs were discovered by Moscow city police.

By doing all of this, defendant A. Artsruni committed crimes in violation of Section 72 and subsections 4 and 6[sic] of Section 99 of the RA Criminal Code.

3. Armenak Levonovich Mndzhoyan, born in the city of Yerevan in 1964, an Armenian by nationality and an RA citizen, in good physical health, with a secondary education, married with two dependent children, unemployed, with no prior convictions, who lived at 4 Admiral Isakov Avenue in Yerevan, apartment 38, and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with planning and committing several murders in 1993 and 1994 with other members of a gang, with specific roles assigned to each member, when he belonged to the secret group known as "Dro"—a permanent armed gang, to which Armenak Zakaryan, Armen Grigoryan, Ovanes Mkrtchyan, Artavazd Manukyan, Edik Simonyan, Zorayr Atabekyan, Ara Kharmandaryan, Gegam Manukyan, Gevorg Alaverdyan, and Tatul Gabriyelyan also belonged—created as part of the ARFD defense council by Grant Ovsepovich Markaryan, the head of the ARFD defense council, and by Arsen Arayevich Artsruni, a member of the same council, in December 1992 with the aim of assaulting and punishing certain individuals and of committing other premeditated crimes.

In September 1993, for example, the murder of Yerevan resident Ashot Nersisyan, codenamed Operation "Kerob" and committed on the night of 13 October in his home, apartment 15 at No 35 Shakhverdyan Street, was planned and organized in advance. On that

day gang members A. Mndzhoyan, A. Zakaryan, and A. Grigoryan forced their way into the apartment with Makarov pistols, while E. Simonyan, A. Manukyan, and Z. Atabekyan secured the completion of the operation from outside. A. Mndzhoyan, A. Zakaryan, and A. Grigoryan killed A. Nersisyan and his wife Nune Marukhyan with 11 shots fired from three guns.

In April 1994 the gang planned the murder of party member Gagik Saakyan, codenamed Operation "Top-1," for "subversive" activity within the ARFD.

At around 22:30 on 2 May 1994 gang members A. Mndzhoyan and A. Grigoryan killed G. Saakyan in front of his home, No 53 Ovnatan Street, with 18 shots from two guns, after which they left the scene of the crime, without being seen by any witnesses, along with O. Mkrtchyan and A. Manukyan, who had served as look-outs in accordance with their assigned roles.

In addition, on 19 September 1994 A. Mndzhoyan and O. Mkrtchyan went to the "Ararat" restaurant for an evening of relaxation, and when they left A. Mndzhoyan, in a state of intoxication, got into an argument with Yerevan residents Arkadiy Ernanovich Tunyan and Bagrat Armenovich Mirakyan near the fountains in Republic Square, and during the course of that argument he shot A. Tunyan and B. Mirakyan eight times with an illegally acquired and stored Makarov pistol, IP2267, with intent to kill and in a manner endangering the lives of many people, inflicting grievous bodily injuries with life-threatening consequences.

By doing all of this, defendant A. Mndzhoyan committed crimes in violation of Section 72, subsections 4 and 8 of Section 99, subsections 2, 4, 6, and 8 of Section 15-99, paragraph 1 of Section 232, and paragraph 3 of Section 213 of the RA Criminal Code.

4. Armenak Zakarovich Zakaryan, born in the city of Yerevan in 1964, an Armenian by nationality and an RA citizen, in good physical health, with a secondary education, married with two dependent children, unemployed, who lived in the front flat on the first floor of Building No 15 on 17th Shaumyan Street in Yerevan and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with planning and committing several murders and other crimes connected with the acquisition, smuggling, delivery, and sale of illegal drugs in 1993 and 1994 with other members of a gang, with specific roles assigned to each member, when he belonged to the secret group known as "Dro"—a permanent armed gang, to which Armenak Mndzhoyan, Armen Grigoryan, Ovanes Mkrtchyan, Artavazd Manukyan, Edik Simonyan, Zorayr Atabekyan, Ara Kharmandaryan, Gegam Manukyan, Gevorg Alaverdyan, and Tatul Gabriyelyan also belonged—created as part of the ARFD defense council by Grant Ovsepovich Markaryan, the head of the ARFD defense council, and by Arsen Arayevich Artsruni, a member of the same council, in December 1992 with the aim of assaulting and punishing certain individuals and of committing other premeditated crimes.

In September 1993, for example, the murder of Yerevan resident Ashot Nersisyan, codenamed Operation "Kerob" and committed on the night of 13 October in his home, apartment 15 at No 35 Shakhverdyan Street, was planned in advance and organized by means of clandestine surveillance. On that day A. Zakaryan went with gang members A. Mndzhoyan, A. Grigoryan, E. Simonyan, and Z. Atabekyan to that address, where, in accordance with their assigned roles, A. Manukyan, A. Mndzhoyan [sic], and Z. Atabekyan kept watch outside, while he and A. Mndzhoyan and A. Grigoryan, armed with Makarov pistols, forced their way into the apartment and killed A. Nersisyan and his wife Nune Marukhyan with 11 shots fired from three guns, after which all of them left the scene of the crime together without being seen by any witnesses.

In April 1994 defendants A. Zakaryan and the other gang members planned the murder of party member Gagik Saakyan, codenamed Operation "Top-1," for "subversive" activity within the ARFD and organized it by means of clandestine surveillance.

For the purpose of committing the murder, defendant A. Zakaryan lay in wait near G. Saakyan's home, 53 Ovnatan Street, for several days along with gang members A. Mndzhoyan, A. Grigoryan, O. Mkrtchyan, and A. Manukyan, in the same location to which gang members A. Mndzhoyan, A. Grigoryan, O. Mkrtchyan, and A. Manukyan went for the same purpose on 2 May 1994 at around 22:30, but this time without A. Zakaryan, who did not participate in the operation that day because he was too drunk. A. Manukyan and O. Mkrtchyan took up positions at a distance again to secure the success of the operation, while A. Mndzhoyan and A. Grigoryan, who were waiting in front of G. Saakyan's home, fired 18 shots from their Makarov pistols at G. Saakyan as soon as he arrived and killed G. Saakyan, after which all of them left the scene of the crime together unnoticed.

In November 1994 the gang acquired around 5 kilograms of illegal drugs of the heroin category, which were then smuggled, hidden in two suitcases and a game board, from the Lebanese city of Beirut to Yerevan.

On the instructions of A. Artsruni, one of the gang leaders, A. Zakaryan and A. Kharmandaryan delivered the drugs to Yerevan illegally and concealed part of the drugs. The rest, hidden in one of the suitcases and the game board, was taken to the city of Moscow in the Russian Federation in November 1994 by O. Mkrtchyan, where A. Manukyan was waiting for him in accordance with an earlier agreement. They looked for a buyer and sold 830 grams of the drugs in Moscow, and the rest of the drugs were found and confiscated by Moscow city police.

In addition to this, while he was a member of the gang A. Zakaryan used an obviously forged passport, XXIZhG N 63612, with A. Zakaryan's photograph but in the name of Islam Shamil ogly Babayev, prepared by another gang member, O. Mkrtchyan.

By doing all of this, A. Zakaryan committed crimes in violation of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code.

5. Armen Yakhshibekovich Grigoryan, born in the city of Yerevan in 1972, an Armenian by nationality and an RA citizen, in good physical health, with a secondary education, unmarried, who lived in No 1a on 1st Ovnatan Street and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with planning and committing several premeditated homicides in 1993-1994 with other members of a gang, with specific roles assigned to each member, when he belonged to the secret group known as "Dro"—a permanent armed gang, to which Armenak Mndzhoyan, Ovanes Mkrtchyan, Artavazd Manukyan, Edik Simonyan, Zorayr Atabekyan, Ara Kharmandaryan, Gegam Manukyan, Gevorg Alaverdyan, and Tatul Gabriyelyan also belonged—created as part of the ARFD defense council by Grant Ovsepovich Markaryan, the head of the ARFD defense council, and by Arsen Arayevich Artsruni, a member of the same council, in December 1992 with the aim of assaulting and punishing certain individuals and of committing other premeditated crimes.

In September 1993, for example, the murder of Yerevan resident Ashot Nersisyan, codenamed Operation "Kerob" and committed on the night of 13 October in his home, apartment 15 at No 35 Shakhverdyan Street, was planned in advance and organized by means of clandestine surveillance. On that day gang members A. Mndzhoyan, A. Zakaryan, and A. Grigoryan forced their way into the apartment with Makarov pistols while E. Simonyan, A. Manukyan, and Z. Atabekyan kept watch outside. A. Mndzhoyan, A. Zakaryan, and A. Grigoryan killed A. Nersisyan and his wife Nune Marukhyan with 11 shots fired from three guns, after which they left the scene of the crime unobserved by anyone.

In April 1994 the gang planned the murder of party member Gagik Saakyan, codenamed Operation "Top-1," for "subversive" activity within the ARFD.

At around 22:30 on 2 May 1994 defendant A. Grigoryan went with gang members A. Mndzhoyan, A. Manukyan, and O. Mkrtchyan to G. Saakyan's home, No 53 Ovnatan Street. In accordance with the roles assigned to them, A. Manukyan and O. Mkrtchyan took up positions at a distance to serve as look-outs, while A. Grigoryan himself, along with A. Mndzhoyan, both armed with Makarov pistols, waited to ambush G. Saakyan, and when he came home they fired 18 shots at him from the two guns, killed G. Saakyan, and left the scene of the crime without being observed by anyone.

By doing all of this, A. Grigoryan committed crimes in violation of Section 72 and subsections 4 and 8 of Section 99 of the RA Criminal Code.

6. Ovanes Serezhayevich Mkrtchyan, born in the city of Yerevan in 1963, an Armenian by nationality and an RA citizen, in good physical health, a bachelor, unemployed, with no prior convictions, who lived in apartment 36 at 10/6 Ararat Tract No 1 in Yerevan and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with planning and committing several premeditated homicides and several other crimes connected with the acquisition, smuggling, and sale of illegal drugs in 1993-1994 with other members of a gang, with specific roles assigned to each member, when he belonged to the secret group known as "Dro"—a permanent armed gang, to which Armenak Mndzhoyan, Artavazd Manukyan, Edik Simonyan, Zorayr Atabekyan, Ara Kharmandaryan, Gegam Manukyan, Gevorg Alaverdyan, and Tatul Gabriyelyan also belonged—created as part of the ARFD defense council by Grant Ovsepovich Markaryan, the head of the ARFD defense council, and by Arsen Arayevich Artsruni, a member of the same council, in December 1992 with the aim of assaulting and punishing certain individuals and of committing other premeditated crimes.

In September 1993, for example, the murder of Yerevan resident Ashot Nersisyan, codenamed Operation "Kerob" and committed on the night of 13 October in his home, apartment 15 at No 35 Shakhverdyan Street, was planned in advance and organized by means of clandestine surveillance by O. Mkrtchyan and other gang members. On that day gang members A. Mndzhoyan, O. Mkrtchyan, A. Zakaryan, A. Grigoryan, E. Simonyan, A. Manukyan, and Z. Atabekyan met at the headquarters in Ayntap, where A. Mndzhoyan assigned different roles to them, as a result of which O. Mkrtchyan remained at headquarters while the rest went to No 35. A. Manukyan, A. Zakaryan [sic], and Z. Atabekyan kept watch outside, while A. Mndzhoyan, A. Zakaryan and A. Grigoryan, armed with Makarov pistols, forced their way into the apartment and killed A. Nersisyan and his wife Nune Marukhyan with 11 shots fired from three guns, after which they left the scene of the crime with A. Manukyan, A. Zakaryan [sic], and Z. Atabekyan, returned to headquarters, and reported the murder of A. Nersisyan and his wife to O. Mkrtchyan.

In April 1994 O. Mkrtchyan and other gang members planned and organized, by means of clandestine surveillance, the murder of party member Gagik Saakyan, codenamed Operation "Top-1" and committed on 2 May 1994, for "subversive" activity within the ARFD.

On that day at around 22:30 defendant O. Mkrtchyan went to G. Saakyan's home, No 53 Ovnatan Street in Yerevan, with gang members A. Mndzhoyan, A. Grigoryan, and A. Manukyan. In accordance with the roles assigned to them, he and A. Manukyan served as look-outs, while A. Mndzhoyan and A. Grigoryan, armed with Makarov pistols, with respective serial numbers IP2267 and GN2686, lay in wait for G. Saakyan, and when he was on his way home O. Mkrtchyan warned A. Mndzhoyan and A. Grigoryan by portable radio of his arrival. They then fired 18 shots at G. Saakyan from the two guns, killed him, and left the scene of the crime together without being observed by anyone.

In November 1994 the gang acquired around 5 kilograms of illegal drugs of the heroin category, which were then smuggled, hidden in two suitcases and a game board, from the Lebanese city of Beirut to Yerevan. On the instructions of A. Artsruni, one of the gang leaders, on 8 November 1994 O. Mkrtchyan carried 2.3 kilograms of the contraband drugs in one suitcase and the game board to the city of Moscow, where A. Manukyan was waiting for him in accordance with an earlier agreement. Together they found a buyer for 830 grams of the drugs. The rest of the drugs were found and confiscated by Moscow city police.

In addition, on 19 September 1994 O. Mkrtchyan and A. Mndzhoyan went to the "Ararat" restaurant in Yerevan for an evening of relaxation. After drinking alcohol and getting drunk, A. Mndzhoyan got into an argument with Yerevan residents Arkadiy Ernanovich Tunyan and Bagrat Armenovich Mirakyan near the fountains in Republic Square after they left the restaurant, and during the course of that argument he shot A. Tunyan and B. Mirakyan eight times with an illegally acquired and stored Makarov pistol, IP2267, with intent to kill and in a manner endangering the lives of many people, inflicting grievous bodily injuries with life-threatening consequences.

A. Mndzhoyan and O. Mkrtchyan left the scene of the crime and O. Mkrtchyan hid A. Mndzhoyan for around 10 days in a dacha belonging to his parents in the rural community of Kharberd in Masisskiy Rayon, after which they went to the city of Odessa together and hid there.

In addition, while he was a gang member O. Mkrtchyan forged a Soviet passport, XXIZhG N 633612, for gang member A. Zakaryan, in the name of Islam Shamil ogly Babayev but with A. Zakaryan's photograph, which he notarized with a fraudulent stamp.

By doing all of this, defendant O. Mkrtchyan committed crimes in violation of Section 72, subsections 4 and 8 of Section 99, and paragraph 1 of Section 205 of the RA Criminal Code.

7. Ara Artinovich Kharmandaryan, born in the Lebanese city of Beirut in 1961, a citizen of the Republic of Lebanon, in good physical health, with a secondary education, married with two dependent children, employed by the "Artsruni" company, with no prior convictions, who lived at 96 Azatutyan Avenue, apartment 30, in Yerevan and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with planning committing several premeditated homicides and several other crimes connected with the acquisition, smuggling, and sale of illegal drugs in 1993-1994 with other members of a gang, with specific roles assigned to each member, when he belonged to the secret group known as "Dro"—a permanent armed gang, to which Armenak Mndzhoyan, Artavazd Manukyan, Edik Simonyan, Zorayr Atabekyan, Gegam Manukyan, Gevorg Alaverdyan, and Tatul Gabriyelyan also belonged—created as part of the ARFD defense council by Grant Ovsepovich Markaryan, the head of the ARFD defense council, and by Arsen Arayevich Artsruni, a member of the same council, in December 1992 with the aim of assaulting and punishing certain individuals and of committing other premeditated crimes.

In the beginning of November 1994, for example, on A. Artsruni's instructions, A. Kharmandaryan and O. Mkrtchyan received around 2.5 kilograms of illegal drugs of the heroin category, smuggled from the Lebanese city of Beirut to Yerevan, from Lebanese citizen Zhak Yesan Barsegyan at 83 Narkskiy Tract No 1, apartment 30, and on 8 January 1994 O. Mkrtchyan delivered heroin concealed in a suitcase and a game board to the city of Moscow, where he sold 830 grams of the substance with another gang member, A. Manukyan, while the rest was found and confiscated by Moscow city police. In the middle of November 1994 A. Kharmandaryan and another gang member, A. Zakaryan, received around 1.5 kilograms of drugs of the heroin category, hidden in another suitcase, from Zh. Barsegyan in the same apartment, again on the instructions of A. Artsruni, for the purpose of its delivery to Moscow for sale in the same manner, but they were unable to sell it because they were arrested.

By doing all of this, A. Kharmandaryan committed a crime in violation of Section 72 of the RA Criminal Code.

8. Edik Shvernikovich Simonyan, born in the city of Yerevan in 1969, an Armenian by nationality and an RA citizen, in good physical health, with a secondary specialized education, married with one dependent, with no prior convictions, employed by the management of the "Razdan" Hotel, who lived in apartment 36 at 52 Leningradyan Street in Yerevan and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with planning and committing several premeditated homicides with other members of a gang, with specific roles assigned to each member, when he belonged to the secret group known as "Dro"—a permanent armed gang, to which Armenak Mndzhoyan, Artavazd Manukyan, Zorayr Atabekyan, Gegam Manukyan, Gevorg Alaverdyan, and Tatul Gabriyelyan also belonged—created as part of the ARFD defense council by Grant Ovsepovich Markaryan, the head of the ARFD defense council, and by Arsen Arayevich Artsruni, a member of the same council, in December 1992 with the aim of assaulting and punishing certain individuals and of committing other premeditated crimes.

In September 1993, for example, the murder of Yerevan resident Ashot Nersisyan, codenamed Operation "Kerob" and committed on the night of 13 October in his home, apartment 15 at No 35 Shakhverdyan Street, was planned in advance and organized by means of clandestine surveillance by O. Mkrtchyan and other gang members. On that day gang members A. Mndzhoyan, A. Zakaryan, A. Grigoryan, E. Simonyan, G. [sic] Manukyan, and Z. Atabekyan went to No 35. G. [sic] Manukyan, A. Zakaryan [sic], and Z. Atabekyan kept watch outside, while A. Mndzhoyan, A. Zakaryan and A. Grigoryan, armed with Makarov pistols, forced their way into the apartment and killed A. Nersisyan and his wife Nune

Marukhyan with 11 shots fired from three guns, after which they left the scene of the crime unobserved by anyone with A. Manukyan, A. Zakaryan [sic], and Z. Atabekyan.

By doing all of this, E. Simonyan committed crimes in violation of Section 72 and Subsection 4 of Section 99 of the RA Criminal Code.

9. Gegam Azatovich Manukyan, born in the city of Oktemberyan in 1970, an Armenian by nationality and an RA citizen, in good physical health, with a higher education, a bachelor, with no prior convictions, employed as the director of the Armenian Document Center, who lived at 123 Kamo Street, apartment 15, in Yerevan and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with joining the secret group known as "Dro"—a permanent armed gang created by Grant Markaryan and another defendant, A. Artsruni, as part of the defense committee [sic] of the ARFD Party, in December 1992 on the recommendation of Grant Markaryan, with taking charge of the gang archives, and with acting on the instructions of gang leaders G. Markaryan and A. Artsruni.

In March 1994, for example, G. Manukyan received encoded secret records and reports compiled by gang members A. Mndzhoyan, A. Zakaryan, A. Grigoryan, and others on clandestine surveillance and stake-outs, and descriptions of an apartment compiled during the preparation and organization and after the completion of the planned murder of Yerevan residents A. Nersisyan and N. Marukhyan, a married couple, codenamed Operation "Kerob," from A. Artsruni and, in accordance with his duties, read the documents and analyzed them. In other words, defendant G. Manukyan committed a crime in violation of Section 72 of the RA Criminal Code.

10. Gevorg Benikovich Alaverdyan, born in Yerevan in 1973, an Armenian by nationality and an RA citizen, in good physical health, with a secondary education, married with one dependent, with no prior convictions, unemployed, who lived at 6 Ye. Tadevosyan Street, apartment 27, in Yerevan and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with accepting defendant A. Mndzhoyan's invitaion in fall 1993 to join a secret group known as "Dro"—a permanent armed gang created in December 1992 by other defendants in this case, the leader of the defense council of the ARFD Party and council member A. Artsruni—and with acting on the orders of his immediate superiors in the gang.

In September 1993, for example, defendant G. Alaverdyan participated in the preparations for the gang's planned murder of residents of Yerevan, codenamed Operation "Kerob": On the instructions of gang members A. Mndzhoyan and A. Zakaryan, he looked for A. Nersisyan on Sevani Street in the city of Yerevan, on the grounds of the new church in the Marash district, and in Shengavitskiy Rayon, after which he compiled encoded reports on the results of his clandestine surveillance and gave them to A. Mndzhoyan and A. Zakaryan. A short time later he learned from A. Zakaryan and another gang member, E. Simonyan, that the gang had killed A. Nersisyan and his wife. In addition, at the request of his immediate superior, A. Mndzhoyan, he and other gang members brought a man known as "Frik" to the headquarters in Ayntap and beat him, thereby committing a crime in violation of Section 72 of the RA Criminal Code.

11. Tatul Droyevich Gabriyelyan, born in the city of Yerevan in 1969, an Armenian by nationality and an RA citizen, in good physical health, with a secondary education, divorced, with no prior convictions, employed as a night watchman by the "Alfa" Institute in Yerevan, who lived at No 4 Shrdzhanaim Street in Yerevan and is now in custody in the Investigative Ward of the RA Main Security Directorate,

is charged with accepting assignments from his immediate superiors in a gang in fall 1993 after he joined a secret group known as "Dro"—a permanent armed gang created in December 1992 by other defendants in this case, the leader of the defense council of the ARFD Party and council member A. Artsruni.

On the instructions of his immediate superiors in the gang, A. Mndzhoyan and O. Mkrtchyan, for example, in December 1993 T. Gabriyelyan spent around 15 days secretly watching and following a foreign Armenian who lived at the end of Komitas Street and then compiled encoded written reports on the results of the surveillance and gave them to O. Mkrtchyan.

In addition, in February 1994 defendant T. Gabriyelyan secretly watched a man known as "Frik" on the grounds of the "Malatiya" market in Yerevan on the instructions of O. Mkrtchyan and then compiled written reports on this man as well and gave them to O. Mkrtchyan—in other words, defendant T. Gabriyelyan committed a crime in violation of Section 72 of the RA Criminal Code.

In accordance with the provisions of Section 28 of the RA Code of Judicial Procedure, this case is under the jurisdiction of the RA Supreme Court.

The bill of indictment was compiled in the city of Yerevan on 26 May 1995.

[Signed] S.Ye. Gezalyan, Legal Counsel 3d Class, Chief of the Investigative Department of the RA Procuracy

Estonia

*Prime Minister Previews Measures To Curb Inflation

954K0661B Tallinn EESTI PÄEVALEHT in Estonian 5 Jul 95 p 1 Business Section

[Article by Tarmo Müürsepp: "Vähi Stresses Necessity of Changes"]

[FBIS Translated Text]**At the government's press conference yesterday, Prime Minister Tiit Vähi emphasized once again the need to change Estonia's present economic policy. "The essence of the new economic course should become visible within half a year," he said.**

Vähi said the new economic policy being proposed is characterized by paying more attention to thrift. "In response to that, he remarked, inflation should start coming down and the average monthly consumer price index should not exceed 1 percent."

Vähi explained that this new kind of economic policy was fueled by the "need to curb the flourishing inflation."

Vähi said that Estonia's projected budget increase is 16 percent for 1996 and 8 percent for 1997. "Only 2-3 percent of the 1997 increase will be attributable to inflation, as we will be dealing largely with a growth budget."

Increases Planned for Local Government Budgets

Vähi said that during the next fiscal year, plans call for increasing the budget volume of Estonia's local government units and for widening the functions of local governments.

One of the significant changes in economic policy mentioned by him was the intention to increase the amounts allocated to ensure law enforcement. "More money should be allocated to the Interior Ministry, Estonia's judicial system, and the system of the Justice Ministry," he said.

Vähi also announced the government's intention to allocate more money than before to the educational system during the coming fiscal year, so as to make teachers' salaries compatible with those in other specialties.

"Through certain developmental programs, we would also like to influence private investments," Vähi added. "It is our wish that investment money also go to the most backward regions and that more of it be spent on the construction of homes."

The prime minister expressed his desire to support the preferential development of production geared for export by means of state-sponsored credit programs.

"More favorable terms should be offered to those companies whose production is geared to export," he said.

"Inflation has been running between 45 and 47 percent over the last few years," Vähi said. "If we can achieve an inflation level between 25 and 27 percent in Estonia this year, and between 15 and 17 percent next year, we could conclude that the economic changes made have been successful."

In his earlier commentary on Estonia's economic policy, Vähi predicted that Estonia's economic policy could develop problems similar to the financial crisis in Mexico.

*Rise in Crime Rate Examined

954K0661C Tallinn EESTI PÄEVALEHT in Estonian 6 Jul 95 p 3

[Article by Toomas Raag: "Murderers Claim a Victim a Day"]

[FBIS Translated Text]**The number of murders in Estonia has grown explosively since the country regained its independence, averaging a murder a day over the past year.**

According to the State Prosecutor's Office, the past few years have also seen an increase in the number of missing persons, along with the number of those who have later turned up dead. Thus, the number of premeditated homicides reflected in official statistics does not correspond to the actual number of homicides.

Between the years of 1976 and 1990, premeditated homicides averaged 87 cases per year, whereas last year's homicide rate averaged one a day. Last year, homicides made up 1 percent of the total number of crimes.

The greatest number of premeditated homicides over the last three years was committed in Tallinn, in the eastern portion of the Virumaa district and in Tartu, where, during that period, more than half of the premeditated homicides were committed.

A significantly greater number of premeditated homicides are committed in the cities than in rural communities, where they number a little over 25 percent of the total number of homicides. One-third of premeditated homicides were committed in living quarters and two thirds of them outside of living quarters.

Every year, more firearms are used by criminals to commit homicide. In 1992, 6 people perished through the use of firearms, and last year this number was up to 88.

The number of aggravated homicides has also gone up from year to year, and last year these cases made up one-third of the total number of homicides.

Documents at the State Prosecutor's office reveal that not all people who have committed homicide have been charged. Last year, for example, the police identified 248 killers, but only 220 of them were charged. This is due mostly to the inability to prove criminal action, but also to time lags stretching them into the coming year.

Of all the homicides committed in 1994, 60.3 percent were discovered. Of the homicides discovered last year, two-thirds were cases where the perpetrator and the victim were either related or acquainted. Also noteworthy is the fact that 41 percent of the victims were not working.

According to statistics, 9 out of 10 killers are men. Almost half of them are between the ages of 30 and 55, and 38 percent of the killers are between 18 and 30 years of age.

Of the killers, 43 percent were Estonian, 80 percent were residents of the same region where the killing occurred, and half of the killers did not work or attend school. Also, 35 percent of the criminals have been convicted before, three quarters of the crimes are committed in a drunken state, and one-quarter of the killings are committed by a group.

Seasonally, most of the murders are committed during the second half of the year. Most of them are committed in October and December, with the least of them committed in July.

Close to 40 percent of the murders are job related, one-fourth of them are committed for gain, while one-fifth of them are committed as acts of hooliganism. For the rest of the cases, the motive is either not clear or cannot be determined.

Over the last three years, the number of convicted criminals has gone from 40 to 183. At the same time, the State Prosecutor's Office is forced to admit that penal policies have been liberalized. The average jail term for deliberate homicide has gone from 9.2 years down to 6.7 years over the last three years. There are 454 people serving time for deliberate homicide in Estonia. Last year, five homicides were committed in prisons.

*Mid-Year Report Finds Economy in 'Satisfactory' State

954K0661A Tallinn EESTI PÄEVALEHT in Estonian 4 Jul 95 p 6

[Article by Tarmo Müürsepp: "General State of the Economy Is Satisfactory"

[FBIS Translated Text]**Data received by Estonia's Economic Forecasting Institute (EKI) through the middle of June will support the contention that no significant changes have taken place in Estonia's economy over the second quarter of the year.**

EKI's assessment is that Estonia's economy is continuing its moderate development, but viewed against the entire transition period, it is still in the initial stages of its rise. Alongside a rapid development in trade, banking, tourism, and transport, there is a continuing decline in agriculture and industry.

EKI maintains that Estonia's export opportunities are enhanced by a widening of economic contacts and the economic rise of Europe. Experts also believe that Estonia cannot make full use of its export opportunities because of the low level of international competition and erosion stemming from the initial over-evaluation of the kroon.

According to EKI, the trade deficit can reach a danger point in the near future, since Estonia's economic policy has not provided sufficient support for the development of industry and agriculture geared for export.

EKI's economic indicators show that the second quarter of 1995 was more successful than the first for industry, construction, and the retail trade.

There is also some improvement in the assessment given by Estonia's residents to the state's economic condition. Estonia's economy, as a whole, was given a more positive rating by the consumers than was the economic condition of their own families. One out of three respondents believed that Estonia's economic condition would improve over the next 12 months, one out of four thought that the economic condition would remain the same, and one out of five predicted a worsening of the condition.

Most of the 400 consumers participating in the nationwide EKI survey held the opinion that the cost of living had gone up over the last 12 months. One out of five respondents found that the current cost of living is significantly higher than it was a year ago. Affected most by increased prices seem to be the residents of Tallinn, 30 percent of whom perceived a substantial increase in the cost of living.

A significant portion of consumers predicted a moderate slow-down in price increases over the next 12 months.

Assessments of EKI's economic experts regarding the condition of investments in Estonia during the second quarter were quite diverse. The condition was rated good by 11 percent of respondents, satisfactory by 58 percent, and poor by 31 percent of the experts.

EKI's favorable assessment was attributed to investors' ever-increasing interest in Estonia and the increase in the volume of renovation and reconstruction work.

Negative assessments were probably due to the fact that big investments have been few and far between up until now and that the bulk of the investments have been channeled to the trade and service sectors. There has not been sufficient outlay of capital to establish new technology.

However, most of the experts (58 percent) were of the opinion that the condition of investments in Estonia is better now than it was a year ago. The condition was rated more or less the same by 31 percent and worse than that of a year ago by 11 percent of the experts.

Commenting on Estonia's attitude toward foreign capital, an overwhelming majority of experts found that Estonia is not imposing any restrictions or limitations for the influx of foreign capital.

Political instability is rated to have some effect on foreign investments made in Estonia, according to 69 percent of the experts, and a considerable effect according to 26 percent of the experts.

The foreign investment climate, an indicator based on administrative restrictions and political stability, is also rated satisfactory, as a result of the survey carried out in June.

Preliminary statistics show that foreign investments made in Estonia have been bigger during the first five months of this year than they were for the same period last year.

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